



The Power to Surprise™

1944

_Founded as 'Kyungsung Precision Industry'

1973

_Began production of 1st Korean-made passenger car, 'Brisa'

1975

_First export of built-up car, 'Brisa pickup'

1988

_Cumulative production reached 1 million units

1999

_Merged by Hyundai Motor Co.

2002

_Cumulative production reached 10 million units
_China plant(Dongfeng Yueda Kia) started mass production

2005

_Cumulative export reached 5 M units
_Groundbreaking of China 2nd plant

2006

_Europe plant(Kia Motors Slovakia) started mass production
_Groundbreaking of US plant (Kia Motors Manufacturing Georgia)



* This annual report contains performance results, financial data as well as the business outlook and strategies of Kia Motors Corp. The statements herein represent Management's objective judgment, but Kia Motors' actual results in the future could differ materially from those presented here. Please understand, therefore, the accuracy and completeness of forward-looking statements cannot be guaranteed.



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Chairman's Message

"We will find a new solution with a breakthrough spirit of challenges and a cohesive teamwork in every moment of a crisis"

In today's automobile industry, competition is so severe that even the bold at heart, if well informed, would be hesitant to confidently predict future victors in the car market. Japanese automobile companies are unrelenting in their measures against us, while late comers such as China are speeding up to catch up with us as far as they can. Stagnation in the world economic growth, coupled with exchange rate risks and other major threats present unfavorable economic conditions for any global player.

The way to mitigate this unpredictable management environment, in a fast and effective way, is to find new engines of growth, and to constantly revitalize our internal processes and systems. In this new 2007 we know that a crisis is another valuable opportunity for us to innovate and develop more of Kia Motors. We will definitely be with you with an unyielding challenging spirit and a unique sense of responsibility for our economy and the automobile industry.

We will exert major efforts to develop 'Customer Priority Management' & 'Global Management Stabilization' programs that provide true value to all our cherished customers in the worldwide market. We intend to base future growth on raising our competencies as a global

maker in all areas including production, sales, marketing, branding, as well as before and after servicing.

We will also concentrate on our Global Quality Management we have driven so far. We will first strengthen our basic competitiveness in terms of production costs and final products. Second, we will exclude all the unnecessary elements from the management through advanced systems to groundwork the base of stable profit making. Third, we will efficiently invest in new future business with our specialized R&D and global production bases. Following these, Kia Motors will come to you as a much more powerful global leader.

Additionally we will do our best to create more added economic value and to further raise transparency through global best practice management activities. Endeavoring to promote the rights & interests of customers & shareholders, we will find new ways to work collaboratively with our business partners. Most importantly of all, we will form a newer harmonious and trusty culture between labor and management based on openness.

Thank You.

Mong-Koo Chung

Kia Motors Corporation
Chairman & CEO



President's Message

Dear stockholders,

I would like to take this opportunity to express my appreciation for your strong support during the last year.

In 2006, Kia Motors focused all our efforts on breaking through the crisis, adopting a retrenchment policy against the worst business environment. Blocked by some unexpected barriers, nevertheless, we didn't solve all the problems which we should definitely get through with to grow and develop constantly, having some of them left for 2007.

Last year we were hurt by dramatically dropping export margin from strong Korean won and a faltering recovery in the domestic market which would otherwise have been a firm ground to get out of the crisis. All this, eventually, has brought an unbalanced ratio between interior structure and exterior volume to us.

As for our performance in 2006, total sales amounted to 1,140,734 units - up 3.2% from the previous year. Sales revenue totaled 17 trillion 439.9 billion won - up by 9%, hitting an alltime-high. However, our operating profit fell back to minus 125.3 billion won, and ordinary profit and year's net profit turned out lower than the previous year: 73.2 billion and 39.3 billion won, respectively. Spikes in the strong KRW, fierce competition, and the shrunken domestic RV market all hurt us.

On behalf of our board members, I wish to take this opportunity to deliver words of apology for not having met your profitability expectations.

Thanking to your support, however, we have built a solid foundation that will allow us to stand taller in the future global car market. Working on all of our key businesses on plan, we have made another new base of a successful global maker in global management, quality, branding,

design, and services.

The year 2006 will be the milestone in Kia's history. We have started building a plant with an annual capacity of 300,000 units in US, the world's most dynamic automobile market. Plant operations in Slovakia have just started mass production, giving us a base for aggressive marketing in Europe. Construction is underway on Kia's second plant in China: we will soon have a consolidating basis to make global management decisions that maximize our presence in the world's major markets.

We've set our 'Design Management Policy' into motion last year: this consists of developing unique and attractive designs that reflect Kia's exciting and enabling identity.

More than ever, through consistent quality management, we are winning the trust and hearts of consumers for our quality, reliability, affordability and safety. We are on the edge of occupying the upper rankings in world's most prestigious quality approval systems. Kia entered into middle level in J.D. Power's Initial Quality Study, and Rio was also honored as the highest-ranking model in the sub-compact segment.

New Carnival (Sedona) was selected as the most impressive new vehicle by the quality reliability assessment of America's prestigious "Consumer Report". As many as 4 models including our New Sorento earned five star crash safety rating from the U.S. Department of Transportation's National Highway Traffic Safety Administration (NHTSA).

Some other notable achievements in 2006 include: (1) the launch of 'Q Service', offering differentiated membership benefits for the first time in Korea's auto industry (2) the considerable buzz we created with our New Carens (Rondo), Korea's first compact crossover utility vehicle and



(3) the success of the New Opirus (Amati), which maintained the top spot, 6 months consecutively, in the domestic full size (premium sedan) car market.

I assure you that we will take the lessons from the last year's crisis and strive to exceed your expectations in 2007, achieving operating profit based on our significant performance. We respect the commitment you've given to us and plan to honour it.

Kia Motors aims at selling 1.54 million units in 2007, an increase of 22.6% over 2006. This represents sales revenue of 22 trillion.

To achieve this, we will focus on management innovation to strengthen our fundamental business structure. We will also increase sales of high-profit-yielding models and substantially pare down production costs to improve profitability.

We will gain market share in Europe with our cee'd model, manufactured in Slovakia. We will achieve a stronger presence in the Chinese market, where we will have completed the construction of our 2nd plant in the second half of the year. Together with rearrangement overseas sales networks, the expansion of overseas production capacity will be the base of our global management.

Additionally, we will establish a flexible production system that enables us to react to unforeseeable changes in the market environment, and will build an energetic

corporate culture, raising trust levels between labor and management. Also we will define and share corporate New Vision with a strong will.

2007 marks the second stage of our brand management program. We will evaluate and complement our brand strategy. And we are nurturing and enriching the depth of our car design portfolio as a core competitive advantage for product differentiation.

Kia Motors will not waver under a crisis. We've met painful challenges in the past and are all mindful of what the consequences are, if we just stay satisfied with the status quo and fail to prepare for future.

All of us on the board of Kia Motors' pledge to hear your criticisms and advice with an open mind. The wheels of success are set in motion, and together we can reach new levels of prosperity.

We wish you and your loved ones healthy and happiness in 2007.

Thank you.

Eui-Sun Chung

Kia Motors Corporation
President & CEO

LINE-UP



Picanto

Relish Every Living Moment of Your Life

The Picanto is not just a car; it's your fashion statement designed for safety and that special feel. And the 1,000cc engine will provide a freedom that's yours alone. It will be love at first sight, and the car will continue to grow on you the longer you drive it.

Rio

The Car Powered by Passion

With its ground-hugging stance that hints at agile handling and a sporty personality, Rio cuts an impressive profile that stands out from the competition.

Cerato / Spectra

Grab Your Future

Redesigned inside and out to impress even the most demanding drivers and passengers, the Cerato has everything you want in a compact sedan. With its sportier styling, outstanding fuel efficiency and class-leading interior space, the Cerato expertly blends style and substance.

cee'd

Satisfy Your Senses

cee'd is a car that will challenge your expectations by appealing to all of your senses. The car has been born from the innovation of Kia and its power to surprise. Explore your sensory perception with cee'd.

Optima / Magentis

Sensible Solution

You've worked hard. Let yourself know you appreciate it. The Optima has all the features you'd expect in a stylish, sporty sedan with a refined ambiance. We've given Optima a sleek new body design and more interior room so you and your passengers can stretch out in comfort and enjoy the ride.

Amanti / Opirus

Take a Closer Look and Discover the World of the Amanti

The Amanti is a sleek and well-balanced vehicle that looks as good in the corporate parking area as it does cruising through the city. It boasts the magnificent styling, cutting-edge technology and extravagant interior to be the trendsetter today. This is the ultimate sedan-the standard to which all other sedans aspire.



Dotima



AMANTI

The Power to Surprise™



SPORTAGE



SORENTO



CARNIVAL



CARENS

Sportage

Designed for Challenge

The Sportage with luxurious European styling is the compact SUV of choice. It rides as comfortably and quietly as a sedan and boasts the highest safety performance in its class.

Sorento

The Sky is the Limit Inside the Sorento

The Sorento makes towing simple and bring the lakes and the mountains closer to you. Bold yet subtle cosmopolitan exterior features will turn heads wherever you go and make your Sorento the focus of attention.

Carnival / Sedona

Pleasure of Life

Be it a stroll through a meadow or a commute in the city, let Carnival take you there. The image of Carnival is stylish durability packaged in a classy and versatile MPV at an optimum level of luxury and convenience for your driving pleasure.

Carens / Rondo

Everyday New Space

Completely refurbished with an all-new eye-catching body shell, the new Carens is robust like an SUV and voluminous like an MPV. The car makes a stylish debut outfitted in a robust bumper, sophisticated side moldings, and voluminous hood. This creative adaptation of the MPV face with sporty SUV styling cues is complemented by a larger wheelbase for a total package that will stop the competition in its tracks.

Global Network (As of Dec 2006)

KOREA

18 Regional HQs - 340 Sales Outlets
- 429 Dealers

OVERSEAS

Regional HQ - Mid-South America, Africa-Mid Asia,
Eastern Europe/CIS, Asia-Pacific
Overseas Corporation - 14 Sales Subsidiaries
- 2 Production Corp. (Slovakia, China)
Regional Offices - 10 nations sales office

DISTRIBUTORSHIP

14 Sales Subsidiaries - 2,036 Dealers

151 Independent Distributors - 1,828 Dealers

* 14 Sales Subsidiaries (USA, Canada, Europe HQ, Germany, UK, Spain, France,
Austria, Sweden, Belgium, Hungary, Czech, Poland, Australia)

Global Production Network

Europe plant (Slovakia)

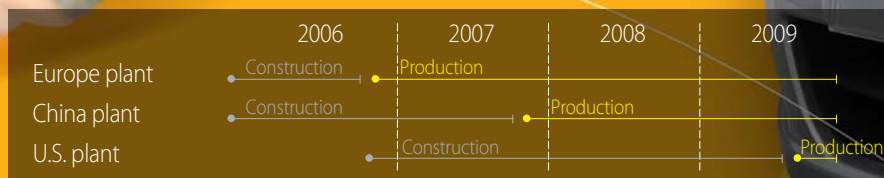
Korea plants

- Hwasung plant
- Sohari plant
- Gwangju plant
- Seosan plant (OEM)

China plant

US plant

Production Schedule



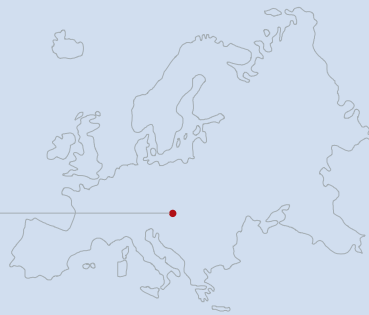
The background of the entire slide is a vibrant yellow. In the upper left, a person's arm is visible, reaching towards a deployed, olive-green car airbag. Below the airbag, the front of a white car is shown, including the headlight and side mirror. The title 'Solidifying Global Steps' is overlaid on the yellow background in a large, white, sans-serif font.

Solidifying Global Steps

The completion of overseas factories is another step towards our vision to create a truly global operation.

Hyundai Motor and Kia Motors plan to thrive and develop as a global automaker, so we need continuing growth in production and sales. Hyundai Motor and Kia Motors' 2006 global sales reached 3.8 million units, and the target for 2010 sales is more than 5 million units. In 2006, the portion of Kia Motors' sales that were global was 1.2 million units. We're targeting 2 million units in global sales for 2010. Despite fierce competition, we see a broader and brighter horizon ahead. We at Hyundai Motor and Kia Motors therefore intend to expand overseas factories to guarantee localized production and maximize local sales. Kia Motors total overseas manufacturing capacity will reach to 1.03 million units until 2009 ; our China No.1 plant currently has a capacity of 130 thousand units and our China No.2 plant, which will have a production capacity of 300 thousand, is scheduled for completion by the end of 2007 ; our recently completed European plant has a production capacity of 300 thousand ; lastly, our U.S. Georgia plant will have a capacity of 300 thousand units with the completion in 2009.

An alluring & eye-catching new model - the cee'd - is born of our Slovakia plant, where Europe and Kia Motors meet.



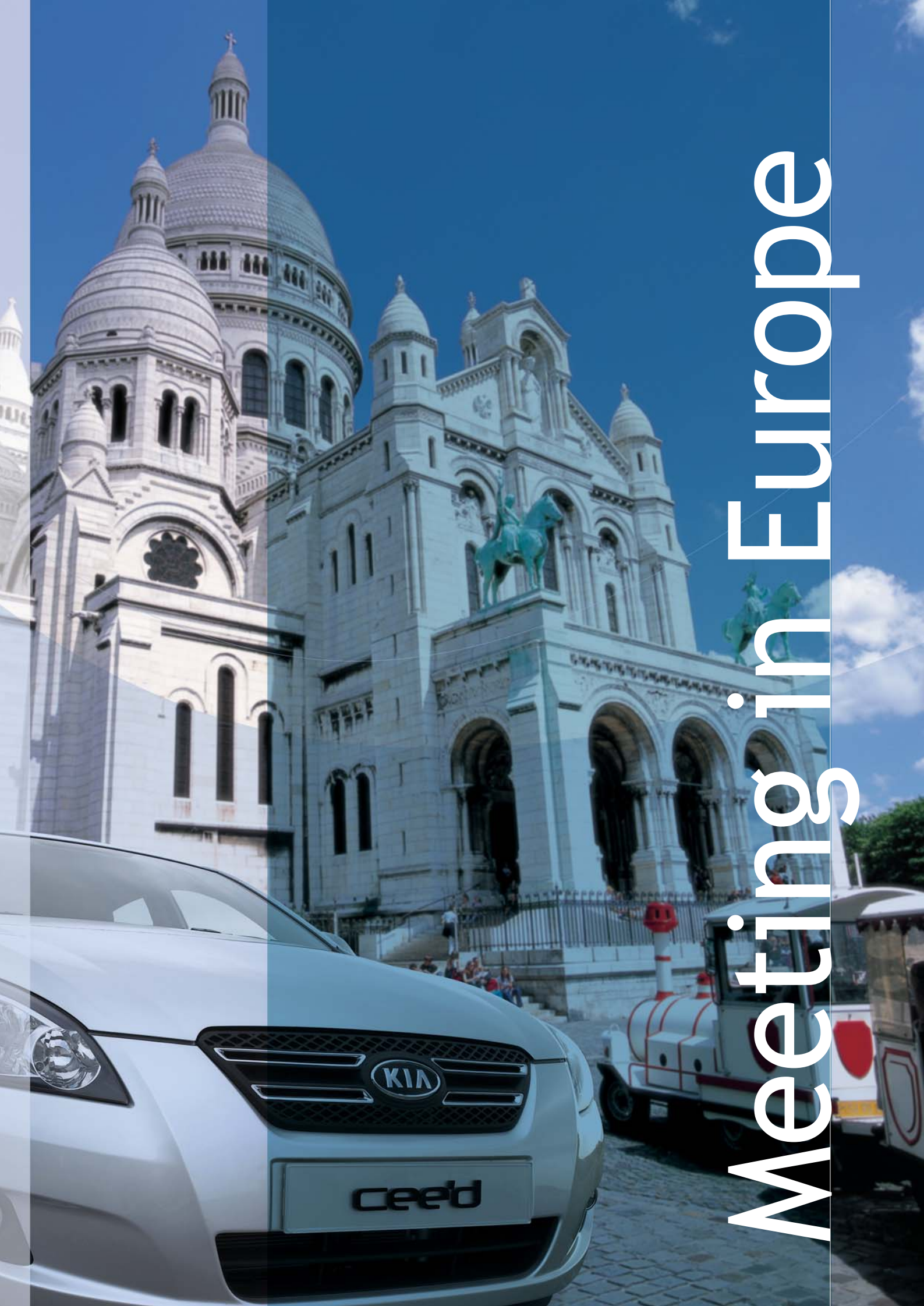
IN 2006, KIA MOTORS' STRONG GROWTH WAS FURTHER SOLIDIFIED IN EUROPE. CEE'D, WHICH HAS BEEN MANUFACTURED IN THE SLOVAKIA PLANT FOR THE FIRST TIME, WILL SET NEW RECORDS.

Kia Motors' rapid progress in Europe is impressive. Our Slovakia plant has been in full operation since the end of 2006. Standards are high and the localized production allows us to gain fresh insights into the EU market. Representing an investment of €1 billion, the facility at Zilina will establish new benchmarks for vehicle quality and productivity. The Slovakia plant will allow us to better understand European car buyers and will provide cost savings in the form of exemptions from import duties (10%), as well as lower shipping, distribution, and labor costs.

cee'd: birth of a new automobile customized to Europe

The launch of cee'd reflects all that we've learned from careful observations of consumer desires in Europe. The C1 segment of the Europe market, under which the cee'd falls, represents about 3.3 million units, according to 2005 figures. This makes the C1 segment a vital one for Kia, as it represents more than 30% of the passenger car market. Kia previously sold our well respected Cerato model ('Spectra' in some markets) in this segment, which had been developed for the Korean and the U.S. markets. Our cee'd model, however, is a bold new Europe-only model, developed by the Europe Design and Technical Center in Russelsheim, Germany. The cee'd reflects the unique tastes and sensibilities of discerning Europe customers. The Cerato was limited to one body type - the 5-door. The glamorous cee'd model will be sold in 3 body types: we're launching with a 5-door hatchback, and will follow up with a wagon version available in the 3rd quarter of 2007, as well as a 3-door hatchback coming in December of 2007. The superior quality of the glamorous cee'd model will be fully-backed by a 7-year, 150,000km warranty. The Kia warranty is the 'best' new vehicle warranty ever offered by any car manufacturer in Europe, with five-years cover of the entire car and an additional two years cover on the powertrain.





Meetings in Europe

Our relentless pursuit of growth & automobile perfection is building Kia Motors brand equity in overseas markets.



Location	Yancheng, Jiangsu
Capacity	130K(#1), 300K(#2)
Product	Rio, Cerato, Optima, Sportage, Carnival, etc.



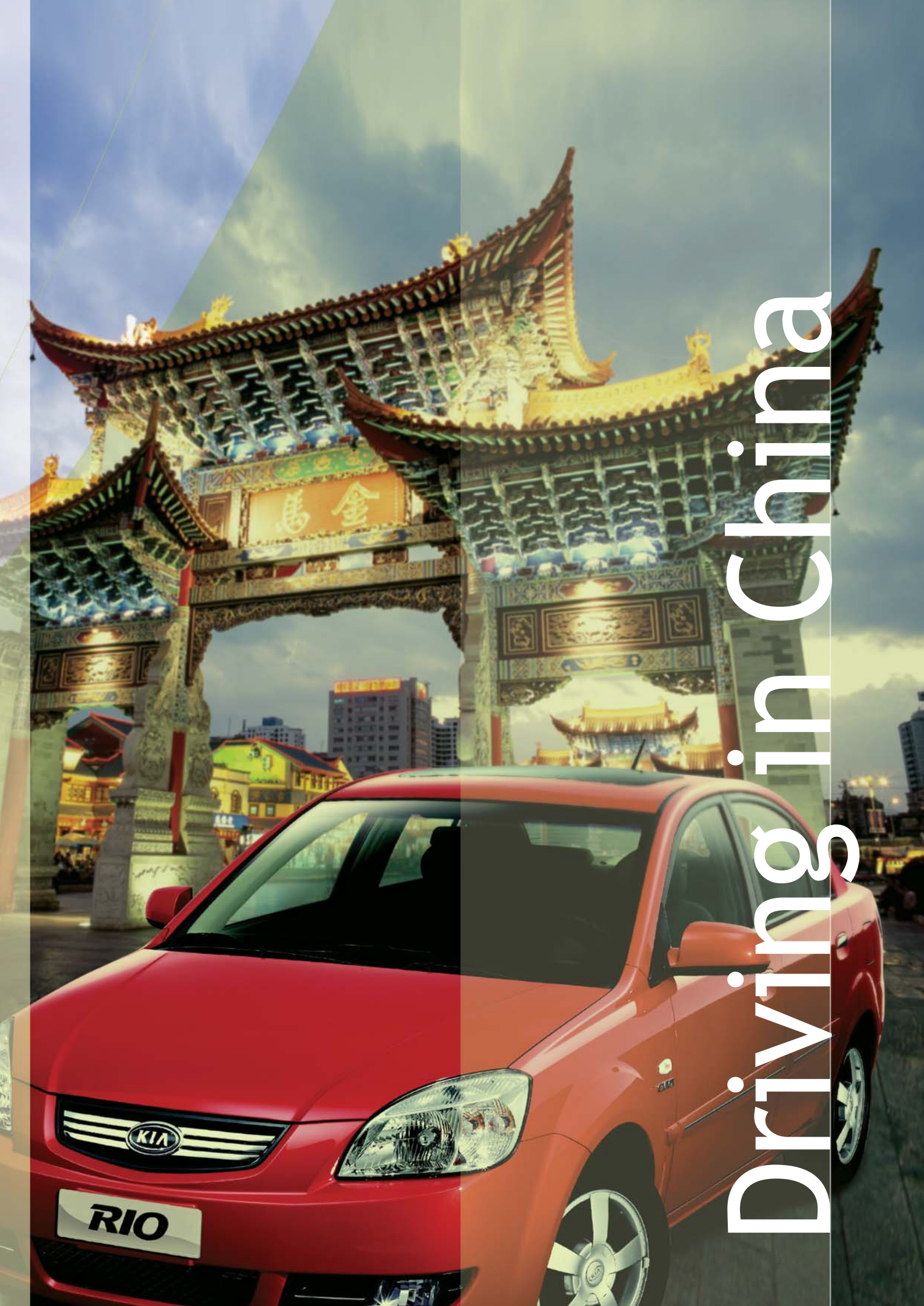
ANOTHER PLANT IS UNDER CONSTRUCTION IN CHINA TO CAPITALIZE ON AMAZING GROWTH RATES IN THE NATION.

The Chinese automobile market is the fastest growing market worldwide where the annual car sales is expected to rise 10 million including 5 million passenger cars in 2010. With the completion of the second plant in China, Kia Motors will embrace a full line-up production system that boasts small-size to mid-size passenger cars and RVs like SUVs and minivans. Although the Chinese automobile market is expected to soar in the future, it is currently standing on a excessive supply by the automakers' aggressive expansion of production capacity. For prior occupation in the market, the competitors are continuing to drop the prices and constantly launching new models.

In addition to the successful launching of TianLiMa, the sub-compact sedan and Cerato('Spectra' in some markets), the compact sedan, Kia Motors is also planning to introduce new models that reflect Chinese customers' needs. Especially, we are developing strategic models exclusively for Chinese customers. And we will continue to strengthen our cost competitiveness including the localization of procurement.

Construction on the Kia Motors' China No.2 plant in Yancheng(Jiangsu Province) is scheduled for completion by the end of 2007. The facility will produce 300,000 units annually and is located 3.5km from our No.1 plant, located in Yancheng. Dongfeng Yueda Kia plans to invest a total of US\$800 million into the project by issuing new shares and borrowing from local lenders. The Chinese government has promised a range of incentives including tax breaks, provision of land at favorable prices and building of infrastructure such as roads and railroads.





Driving in China

The U.S. is the most dynamic market for automobiles, and Kia Motors is positioning itself to be in the heartland of it all.



Location	West Point, Georgia
Capacity	300K
Product	SUV & PC (Strategic model for N.A.)



KIA MOTORS IS DRIVING OUTWARDS TOWARDS THE WORLD, AND THE GEORGIA PLANT IN THE U.S. WILL BREATHE A NEW HEART INTO OUR DREAMS. A NEW SET OF DRUMS CAN BE HEARD IN THE DISTANCE, AS KIA MOTORS RACES AHEAD ON ROAD TO GLOBAL SUCCESS.

Occupying approximately 28% of the world's overall car demand, the North American market is a must-win market. In 2006, industrial demand was 16.6 million units and the demand is expected to grow to 19 million units by 2010. The North American market is a key market for us, representing 30% of our global sales.

Kia along with Hyundai Motor has dramatically expanded its presence in the North American market in recent years. Kia Motors and Hyundai Motor have invested more than US\$300 million in the region since 2002 in a range of initiatives including an R&D center in Michigan, a custom-built vehicle testing facility in the Mojave desert, and the largest automotive design studio in California. Our commitment to the U.S. market is further illustrated by the fact that Kia Motors constructed a brand new 22,000 square meter corporate headquarter building in Irvine California. At a cost of US\$85 million, the Irvine headquarter was completed in December 2006. This exciting, spacious new facility is slated for further development in 2007: we'll invest another US\$35 million into this area to develop a 9,400 square meter Kia-exclusive design center. Once all of these investments are realized, Kia will have the capability to localize all areas of its business within the U.S. - from R&D and production to marketing, sales and after service.

The U.S. plant will play a pivotal role in increasing our presence in the North American market. Sales for the U.S. and Canada are projected to rise by an estimated 650,000 units by 2010. The facility in West Point, Troup County, Georgia, named KMMG (Kia Motors Manufacturing Georgia), is scheduled to begin production in 2009 and is expected to produce 300,000 vehicles per year at full capacity. KMMG is located 134km northeast of Hyundai Motor's U.S. facility in Montgomery Alabama, to fully leverage synergies with Hyundai Motor.

The total investment size of KMMG comes to US\$1 billion, and Kia will receive an array of incentives from the Georgia government. These incentives will include: infrastructure (land, road, utilities) investments by the Georgian government, employment subsidies, tax reductions (property tax, sales tax, etc.), as well as other incentives related to family scholarships and our training center.



creating u.s.



Kia Motors continues to create a unique brand that inspires loyalty and clear value for its customers. We at Kia understand that our unique design DNA is the driving force to become a distinct global automaker. We are developing leading technology and designs that set us apart from our competitors.

We will continue to strengthen our competitiveness in 2007. Through appealing strategic designs for local customers and cutting-edge technologies, we will forge ahead to meet and exceed the expectations of global drivers.





Looking at our Organic Growth

Our ever growing passion to build the world's best designs and technologies is pushing Kia Motors to become a global winner.



Core Competitiveness for Growth

Global R&D Network



Hyundai-Kia R&D Center (Namyang)

Location

Hwasung, Gyeonggi Korea

Facilities

Structural Engineering Center,
Design Center, Wind Tunnel,
Driving Test Complex, Powertrain
Center



Environmental Technology R&D Center

Location

Yongin, Gyeonggi Korea

Facilities

700-bar hydrogen filling station,
fuel-cell endurance tester,
emissions lab, etc.



America Technical Center

On the outskirts of Detroit, our
America Technical Center works
in concert with our California
Design Center in Irvine and the
California City Proving
Ground in the Mojave Desert to
develop new models that are
ideally suited to the needs of the
U.S. marketplace.

Location

Superior Township, Michigan USA



America Design & Technical Center

Focuses on both concept vehicle
research and general
development, while actively
conducting world leading studies.

Location

Irvine, California USA

Facilities

Design Studio



California Proving Ground

Performs comprehensive testing for improved dynamic response and durability.

Location

Mojave Desert, California

Scale

4,300 acres (plot area) /
2.6 acres (floor space)

Facilities

8 proving grounds /
116 km (72 miles) of track



European Design and Technical Center

Location

Russelsheim, Germany

Facilities

Technical and Design Center



Kia European Design Center (with Kia Motors Europe)

In the heart of Europe, we have built a marvelous new facility to reinforce our design activities in the region.

Location

Frankfurt, Germany



Japan R&D Center

Focuses on leading edge technologies and design trend research to make better automobiles.

Location

Chiba, Japan

Facilities

Technical and Design Center

OUR DESIGN DNA WILL STRENGTHEN BRAND COMPETITIVENESS.

Peter Schreyer's design philosophy

As a designer, I'm always looking to work in a fresh environment. And as a young company with a new and exciting brand, Kia Motors certainly provides that. One can really feel the spirit here as well as sense that there's huge potential to shape the brand into the future. This is an exhilarating challenge but, at the same time, the freshness and the exciting nature of the brand has helped me visualize where I can take the company from a design perspective.

Being a European, I bring my own distinct handwriting to Kia. But in the end, our designers and I are all influenced by everything we see in our daily lives and this enhances the entire design process, bringing in many different angles and points of view. What's important is that Kia maximizes this local knowledge and strives in the future to incorporate these influences into a global design standard.

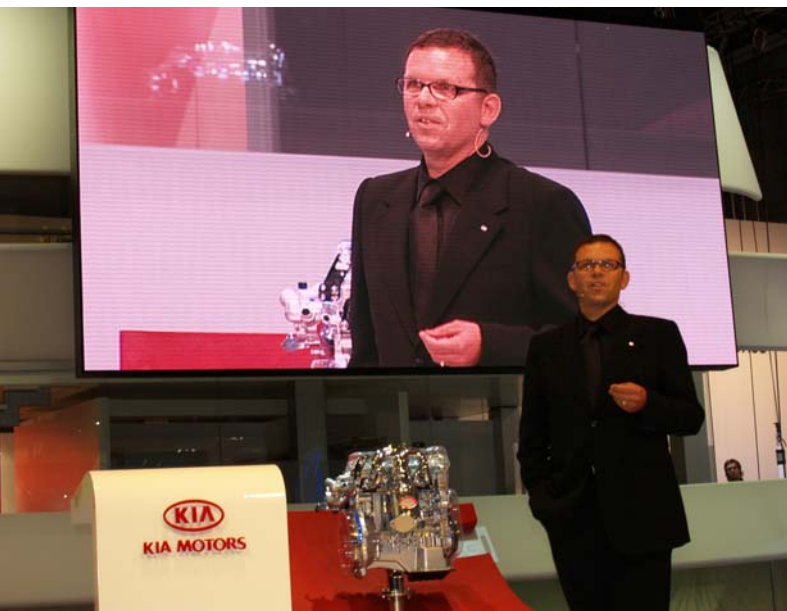
But at the same time, the design of Kia cars will never lose its uniquely Korean feel. As designers, ideas permeate through us and are reflected through our work - we are like sponges. Korea has its own unique culture and for us, being designers, it is impossible not to be influenced by the "K-factor."

As a young-at-heart company, we are designing cars with a sporty and youthful feel. It is also very important to create emotional niche products, which will help build an interesting and desirable brand amongst small but influential groups of people. In this way, Kia's design can help carve out cooler and more desirable credentials.

From an overall design perspective, we want to work on a continuous design language - a "face" and a family feel - that will be reflected through all our products. People will soon subconsciously recognize a Kia car - no matter which model or in whichever market.



Driving Aesthetics



"Good design not only transmits clear messages through the products, but also solidifies the company's brand positioning and overall company image."

Chief Design Officer
Peter Schreyer

A handwritten signature of Peter Schreyer in black ink.

Kia Motors will share quality competitiveness such as platform and new technology with Hyundai Motor, and as for the design, Kia Motors will pursue the own unique identification for establishing distinct brand value in the global market. This is why we are pleased to announce that design centers, fully independent from Hyundai Motor, are under construction in Europe and the U.S. The Europe design center is under way in Frankfurt, Germany and is ready to begin operations in May 2007. The U.S. design center in Irvine California is scheduled for completion later in 2007. Kia's Frankfurt and Irvine design centers will allow us to better tap into the hearts and minds of European and North American consumers. We are confident that these centers will lead to distinctive styling and offerings that meld intuitively with the various needs and lifestyles of local customers'.

Kia Motors has appointed Peter Schreyer, a leading automotive industry designer who designed world-renown cars such as the New Beetle and the Audi TT, to the newly created position of Chief Design Officer. Schreyer, who officially began his new role in September 2006, will oversee Kia's domestic and international design functions and will be responsible for implementing the company's design vision in line with its 'exciting and enabling' brand values that target a young-at-heart and adventurous target customer base.



ex_ceed
 cee'd cabriolet concept car
 Classic cabrio with a traditional soft-top
 roof and aggressive, dynamic front styling



KCD-1 (Slice)
 Minivan of complex concept
 Combination of minivan's utility and
 SUV's Style, targeting young family
 customers in their thirties



pro_ceed
 3-door sporty hatch version of cee'd
 Sporty hatch model with its dynamic,
 muscular and masculine nature



Multi-S
 Compact crossover
 utility vehicle
 Multi-S features Sporty,
 Space, Smart

KCV-IV (Mojave)
 Compact pickup
 Focused on utility with a
 wider trunk, in addition to a
 softer but stronger style



Breaking boundaries and delighting future generations of drivers to come

Concept Car



KCD- II (Mesa)

Large-sized SUV

Modern, rugged body-on-frame SUV



Kia Sport

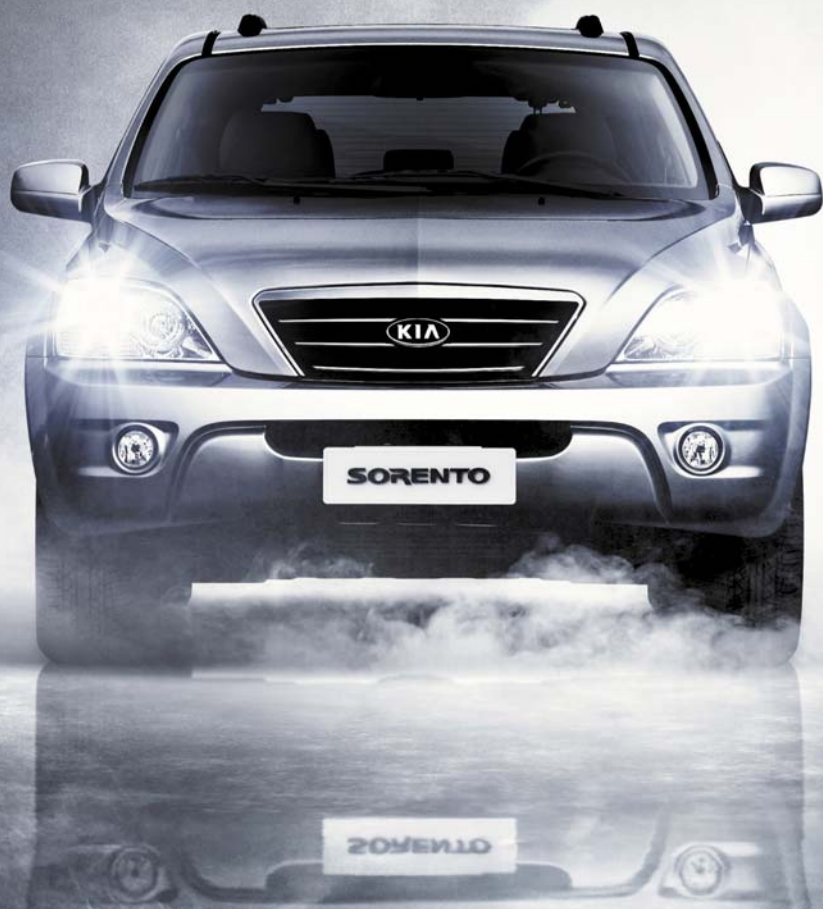
5-door sporty hatch version of Rio
Kia's first sporty hatchback concept car

Kue

Crossover utility vehicle
Crossover concept focuses
on sporty driving and hints at
future design direction for Kia



EXPERIENCE THE NEW KIA MOTORS!!



Driving Dynamics

Kia and Hyundai will pursue differentiated brand images as a means of boosting the Group's overall market share by targeting very different customers with different lifestyles. In accordance with the new strategy, Kia and Hyundai will be promoted under separate brand slogans. The Kia slogan - 'The Power to Surprise' -- is aimed at embodying the 'Exciting & Enabling' values of the Kia brand, while the Hyundai slogan - 'Drive your way' -- is designed to communicate the company's 'Refined & Confident' brand attributes.

Kia Motors' brand slogan - 'The Power to Surprise' - embodies our deep-felt desire to maximize customer satisfaction ('to Surprise') via our surprising potential ('The Power'), and also embodies our promise to be a leading company taking the initiative in continuous technology developments and dynamic changes. Positioning ourselves as an emerging top global brand, we have dubbed our brand identity as 'Exciting & Enabling'. We are endeavoring to realize this brand identity throughout our entire range of activities from product design, production, and communication to after-sales service, and by doing this we are creating a unique set of benefits and image for every Kia customer.

"The Power to Surprise" represents
Kia's global commitment to surpassing
customer expectations through
continuous automotive innovation.



To inject excitement and energy into our portfolio of products, Kia Motors seeks to incorporate the following attributes into our products:

Dynamic Styling

an automobile that is as enjoyable to look at as it is to drive

Responsive Engineering

an automobile that actively responds to each driver's needs

Well-equipped vehicles

an automobile built upon the latest technologies at a competitive price

Versatility

an automobile that provides diverse elements such as easy to change seats and adequate storage space

Safety and Reliability

an automobile that provides piece of mind with the highest standards of safety

Top-tier Product and Service Quality

a reliable automobile that provides outstanding quality and service



Eco-Friendly Vehicles

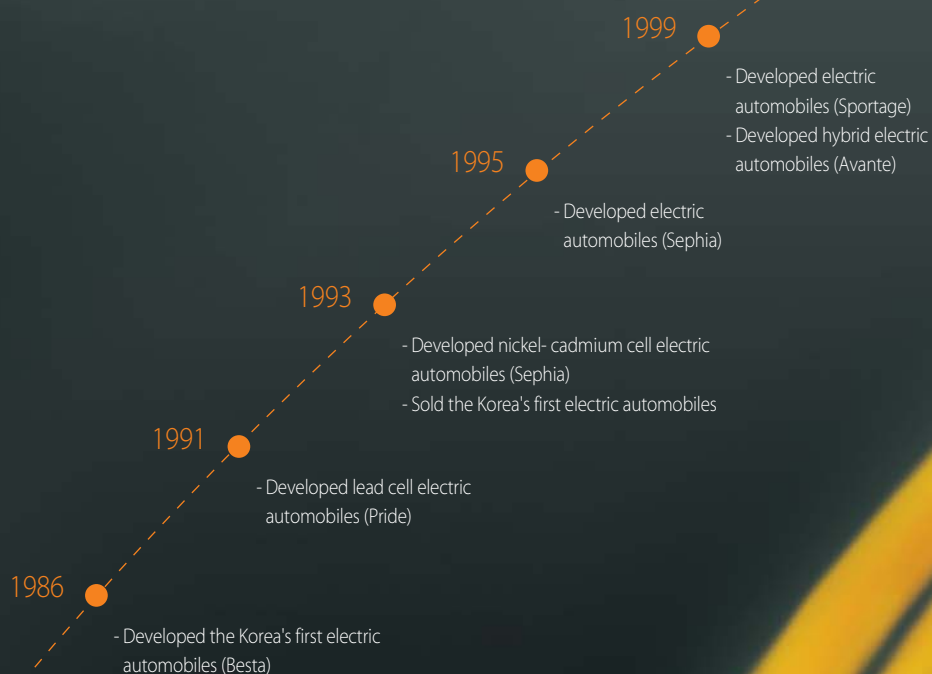
Ever since the first horseless carriage made its appearance at the turn of the last century, automakers and their impact on the environment have been at the center of controversy. Daring to think outside the box, Kia produced its first all-electric vehicle, the KEV-1 in 1986 while Hyundai unveiled an electric Sonata in 1991.

Fuel Cell Electric Vehicle (FCEV)

When hydrogen reacts with oxygen in a fuel cell, electricity is generated with pure water being the only by-product. Our Fuel Cell Electric Vehicles (FCEV) feature a highly efficient design producing absolutely no greenhouse gases and no environmental pollution. Kia's Sportage FCEV and Hyundai's Tucson FCEV are currently participating in a fleet trial program funded by the U.S. Department of Energy.

Hybrid Electric Vehicles (HEV)

We have been quietly working on the development of gas-electric hybrid powertrains for over a decade starting with a parallel-type hybrid system that boosts fuel economy. Kia and Hyundai have distributed Rio and Accent hybrid electric vehicles to public institutions (a total of 350 units in 2005, 380 units in 2006). We plan to develop mass-production systems for these vehicles as we invest an additional ₩ 300 billion in developing the capability to manufacture 300,000 units per year by 2010. When these vehicles are offered to the general public, the Ministry plans to promote the use of hybrid electric vehicles by giving various tax breaks.



Coexistence of human and nature

Eco-friendly Automobile



DEVELOPMENT HISTORY OF ECO-FRIENDLY AUTOMOBILES

* CaFCP : California Fuel - Cell Partnership * EVS21 : 21st International Electric Vehicles Symposium



Experiencing KIA INNOVATION



Kia Motors continually endeavors to improve customer satisfaction and to surpass the expectations of our customers.

Under the motto 'Innovation for Humanity,' Kia Motors is setting out on an unwavering quest to secure the world's best competency in all facets of our business, including product quality, brand, and service. The results of various 2006 customer satisfaction surveys highlighted the fact that we can outshine our rivals and that our commitment to excellence is second to none. Kia Motors intends to build stronger company values on the basis of satisfying and delighting our customers day after day.

We at Kia Motors are channeling our energy into working harmoniously with a diverse range of communities so that we can constantly add value to society. Creating a more comfortable world and supporting neighbors in need is one of our prime social values. These values knit together every Kia Motors employee to their neighboring communities.

Excellence

Delivering consistent value innovation for customers
global competitiveness.



IQS 2006 by J.D. Power - Entry into Middle Level

In the J.D. Power and Associates 2006 Initial Quality Study, Kia Motors was ranked 24th among 37 brands. Originally prescribed to the lower ranks, J.D. Power has raised Kia Motors to a middle ranking. The newly revised 2006 IQS system was completely redesigned and more robust in terms of valuation methods. Whereas the industry average saw an increase of reported problems by 5% in 2006, Kia Motors experienced a 3% decline in reported problems. The Rio was also honored as the highest-ranking model in a tie in the sub-compact segment.

* Note: The Initial Quality Study (IQS) serves as the industry benchmark for new-vehicle quality, as measured within the first 90 days of ownership.

Crash tests by IIHS (the Insurance Institute for Highway Safety in the U.S.)

'Gold Top Safety Pick' for Carnival

Carnival was awarded the Gold Top Safety Pick for its impressive performance with top ratings in frontal, side and rear impact crash tests. According to the IIHS, "The Carnival is the best minivan we've tested."

Optima Earns 'Good' Safety Rating

Optima earned a 'Good' rating -- the highest possible rating -- from the IIHS for its remarkable safety performance with top marks in the frontal and rear impact tests. According to the IIHS, "While most vehicles today can earn a good rating in our frontal test, Kia is to be commended for producing one of the few midsize cars that also does a good job of preventing neck injuries in rear impacts."





Kia car quality has improved so dramatically that customers can actually feel the change. Thanks to this, customer valuation on the quality of our cars has greatly improved.

is the true driving force behind



Crash tests by NHTSA (the U.S. Department of Transportation's National Highway Traffic Safety Administration)

Five-Star Safety Rating

Our Carnival, Optima, Sportage and Sorento models all earned the highest possible safety rating -- five stars -- for all seating positions in the latest frontal and side impact crash tests.

Kia Awards & Distinctions in 2006

Picanto

- Named Most Economical Car ... FIB (Icelandic Automobile Association)

Rio

- Voted Lowest Cost Car to Run ... State motoring clubs (Australia)
- Named 'Most Wanted' in U.S. ... Edmunds.com (USA)

Cerato (Spectra)

- Most Delightful Vehicle 2005 ... Strategic Vision (USA)

Optima (Magentis)

- Best in Quality of Ownership Experience ... Strategic Vision (USA)
- Named Medium Car of the Year ... AML Insurance (New Zealand)

Amanti (Opirus)

- Most Delightful Vehicle 2005 ... Strategic Vision (USA)

Sportage

- One of CNNMoney.com's Best College Cars ... CNNMoney.com (USA)
- Named UK's Best Value SUV ... Planet 4x4 (UK)

Sorento

- Car of the Year (large SUV) ... Autocar ASEAN (Malaysia)
- Named 'Tow Car of the Year' ... Caravan Club (UK)

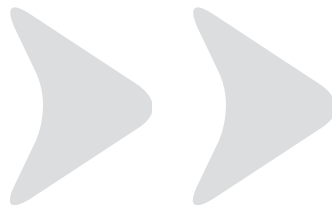
Carnival (Sedona)

- Best in Quality of Ownership Experience... Strategic Vision (USA)



Contribution

Kia Creates a World with Dreams and a Future.



Kia has been actively engaged in Corporate Social Responsibility (CSR) activities since 1991. The Hyundai - Kia Automotive Group donated US\$100,000 to support relief efforts for victims of the earthquake that hit Indonesia in May 2006. Also, to help the victims of summer flood of 2006 that rocked the Korean peninsula, Kia participated in a disaster relief activity in conjunction with the Korea Disaster Relief Association. This meant we provided specially - produced rescue vehicles; dispatched welfare service groups; operated an emergency maintenance support group; and offered various rescue activities to help the flood victims.

In October 2006, Kia Motors launched the 'Easy Move' vehicles and donated them to 3 underprivileged transportation related groups including the Korea Parents Association for disabled people. The 'Easy Move Campaign' is designed to draw attention from Korean population and to improve political supports for transportation convenience of the underprivileged including the disabled and elderly. Developing special vehicles for the physically challenged people is one of our three core social contribution activities that include promoting a safe traffic culture and volunteer activities.

We also have a steadfast commitment to invest significantly in clean production technologies, to minimize environmental impacts on the surrounding environment. True to this, our Sohari and Gwangju plant received Greenhouse Gas Emissions Verification from the international certificate authority DNV (Det Norske Veritas). In light of the fact that our Hwasung plant received certification for Greenhouse Gas Emissions Verification from BSI (British Standard Institute) in 2005, Kia Motors became the first company in Korea to complete Greenhouse Gas Emissions Verification in all of its plants.



Kia Motors has been committed to improving people's lives through various community works to build a legacy of bright and hopeful society.





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Financial Review

2006 will indeed be an important turning point for Kia Motors as we attempt to secure stable growth for the next decades to come.



Overview of the Korean Automotive Industry

(1) Characteristics

The automotive industry requires a broad industrial base and influences other sectors through upstream and downstream links. The industry can be categorized into three phases: production, distribution, ownership & maintenance. Production involves over 20,000 parts and inputs such as steel, chemicals, nonferrous metals, electrical products, electronics, rubber, glass and plastics. Distribution is carried out by sales subsidiaries, franchise dealers, installment finance companies and shippers. Maintenance issues, in contrast, fall under the realm of repair shops and after sales parts, as well as insurers.

Given its integration with so many other suppliers and related industries, it's not surprising that the industry represents a good chunk of the national economy. As of 2004, the Korean automotive industry generated ₩88.1 trillion in production, up 17.6% year on year; this represents 11.1% of the nation's manufacturing sector and 34.7% of domestic machinery output. The industry contributes greatly to Korean exports. Some US\$29.3 billion worth of Korean-made automobiles were sold overseas in 2005, an 11.0% increase from a year earlier, representing 10.3% of the nation's export total. With automotive industry employment at around a quarter of a million people (247,000) in 2004, it comprises 8.8% of entire manufacturing sector employment.

(2) Growth Potential

The Korean automotive industry has grown phenomenally through steady expansion of domestic and overseas operations on the back of favorable government policies as well as ceaseless R&D efforts. Exports of the Hyundai Pony, the first indigenous Korean passenger car, began in 1976. Korea has produced an aggregate total of about 50.8 million units between 1976 and 2006, of which 25.6 million units (50.4%) were sold in domestically and 25.2 million units (49.6%) were exported.

After experiencing steady growth, the industry suffered a 50% year-on-year drop in annual sales to some 780,000 units in 1998 because of the Asian financial crisis. The unprecedented event drove the entire industry to the brink of collapse, forcing some automakers to near bankruptcy. However, the subsequent strong recovery of the Korean economy boosted domestic demand for cars. Exports increased rapidly to industrialized countries, even while the Asian and Latin American economies struggled. Thanks to the quick turnaround in sales both at home and abroad, the output of the Korean automotive industry surpassed the 3 million-unit mark in 2000 for the first time. Sluggish global economic growth caused the Korean economy to slow in 2001, putting downward pressure on automobile production. The government launched an economic stimulus package in 2001 and the effects began to be felt the following year. Annual domestic auto sales exceeded the 1.6 million-unit level for the second time in 2001 (the first time was in 1996).

Since 2003, domestic demand for new vehicles has remained stagnant owing to high oil prices, and the aftereffects of the government's economy-boosting policy. The government policy, while effective, had in effect brought forth future demand. On the other hand, automobile exports have recorded remarkable growth, thanks to improved product quality, a better brand image, and the introduction of competitive new models. Total automobile production in 2005 reached a new record for the third consecutive year despite sluggish domestic sales. Such increase in production was continued in 2006 producing 3.84 million units, a 3.8% growth rate compared with the previous year, approaching the 4 million mark. This strong performance was due to a narrow increase in domestic consumption and the continued growth of foreign exports. Forecasted growth is projected to continue moving upward in 2007.

The number of vehicles on Korea's roads passed 15.9 million in December of 2006. This represents nearly 16 times growth in the past 21 years, since surpassing the 1 million mark in 1985.

Put differently, the ratio of persons per automobile dropped from 36.6 in 1985 to 3.2 in 2006. The figure is still higher than the 1.3 for the US, 1.7 for Japan, and 1.8 for the EU (2004 data). Recently the number of vehicles on Korea's roads has modestly risen. However analysts expect that over the long-term, this number will continue rising until reaching the levels of the U.S., Japan, and the EU.

Overseas sales are also expected to continue growing at a steady clip. In the first half of 2006, Hyundai Motor Company scored 102 on J.D. Power & Associates' Initial Quality Study, ranking it the 3rd highest brand, behind only Porsche and Lexus. While overall 2006 automobile industry demand in the US decreased by 2.6% from the previous year, Hyundai and Kia Motors sales increased by 2.6%, thanks to our enhanced product quality and brand image. In Western Europe, sales continued to climb, boosted by the introduction of new models designed particularly for the EU and sports marketing activities. Sales growth has also been robust in the emerging markets of China, India and Russia. The upward trend in overseas sales is likely to be sustained thanks to not only price competitiveness, a traditional strength, but also rapidly improving quality, consumer satisfaction, and brand recognition, which was boosted by successful sports marketing activities during the 2002 FIFA World Cup Finals and etc. On balance, the Korean automotive industry still has a strong growth potential.

(3) Cyclical Characteristics

Demand for vehicles is closely related to the economic cycle. When global growth slows, demand for vehicles also tends to slump. This correlation with the economic cycle becomes more visible when penetration rates reach saturation levels. Until 1994, the Korean market was still young and vibrant; demand rose sharply every year regardless of the economic cycle. Since 1995 the market seems to have somewhat matured, exposing automakers to cyclical changes domestic consumption. Given that cars are the most expensive durable good, demand for them usually drops disproportionately, versus other consumer goods, during an economic slowdown. This characteristic was evident during the Asian Financial Crisis of 1998, when domestic auto sales plummeted by 50%.

(4) Competitive factors

Automotive manufacturing requires massive capital, leaving a few automakers to dominate the market in all auto-producing countries. This creates substantial entry barriers for a newcomer. Even with strong financing, it takes a minimum of 4~5 years to produce the first vehicle after the decision has been made to enter the market. Exit barriers are also very high. The automotive industry employs tens of thousands of people and does business with thousands of contractors. There is always extreme reluctance to force insolvent carmakers out of the market, in light of the negative ramifications that such a move would have on the national economy.

The three key factors of competition are product quality, marketing prowess and price. These variables are crucial in strengthening market dominance, curbing costs and enhancing profitability. Superb product quality, the most important factor of all, is the ultimate competitive edge: it maximizes customer satisfaction levels with respect to performance, safety, and design. Strong marketing enhances a carmaker's competitiveness by proactively drawing buyers through the creation of new product concepts, launch of new models, aggressive advertising, and establishment of sales and after-sales service network. The concept of cost competitiveness encompasses new model development, mass production efficiency, indirect workforce productivity and financing; it affects both sales price competitiveness and profitability.

The relative significance of these three factors of competition changes with the business environment. During an economic boom, automakers tend to pursue added value by focusing on improving product quality. During slow downs, car makers are inclined to make up for lost profitability through cost competitiveness and greater marketing efforts.

(5) Characteristics related to Securing Resources

Automobile manufacturers need to maintain a steady inflow of raw and secondary materials, including steel and more than 20,000 parts and components to keep their assembly lines running smoothly. Automotive steel in Korea is supplied by POSCO, the world's biggest steelmaker, and Hyundai Hysco, an affiliate of the Hyundai Automotive Group. Auto parts and components are classified into three categories: made in plant (MIP), local parts (LP), and knocked down (KD) parts. MIP parts, produced by automakers themselves, include engines, transmissions, and various cast and forged parts, and account for about 45% of total material costs. Parts made by local manufacturers include brakes, tires, glass, electric and electronic system components, rubber and plastic, and account for some 55% of total material costs. KD parts are imported from abroad. Currently, Korean automakers import a negligible number of KD parts - only in rare instances in which local production is not economically viable. The proportion of KD parts steadily declined once Hyundai Motor localized 100% of the parts and components for its Accent model.

Recently, "modulization" in the auto industry has further improved the efficiency of our industry. Unlike the conventional practice of supplying parts and components individually, suppliers assemble various components into modules and supply them to the final auto assembly plants. "Modulization" thus reduces the number of parts that are delivered as well as the time it takes to assemble new cars.

(6) Related Laws and Government Regulations

Various laws and regulations are in force with regard to areas such as vehicle safety, environmental protection, and taxation. Both Korean and international automobile laws and regulations are regularly revised to protect consumers and increase automakers' accountability. In Korea for example, a product liability law went into effect on July 1, 2002, and from January of 2003 the approval system was replaced by a self-certification regime.

There are a number of automobile-related taxes in Korea. At the time of purchase, consumers need to pay a special consumption tax, education tax, VAT and registration tax. Consumers also have to pay an acquisition tax and are required to buy government bonds. All car owners must pay automotive and education taxes. At the same time, gasoline and diesel prices include four indirect taxes covering transportation, education, roads and VAT. In the wake of the Asian financial

crisis, some of these taxes were exempted or reduced in an attempt to boost domestic consumption, but more fuel-related taxes were imposed to raise funds for education, to recoup local tax revenue lost from car taxes and to finance funds related to road traffic. In addition to this, automobile emissions are regulated to help keep the air clean.

Automotive-related laws and regulations differ by country, but the overall trend is toward strengthening environmental and safety rules. In the United States, the federal government sets the legally permissible levels of automobile emissions, and some states including California enforce their own additional emissions standards. From 2004, the US government has enforced the Tier II Emissions Standards, which are tougher than the previous National Low Emission Vehicle (NLEV) program.

The EU is also tightening its emissions regulations. The Euro I emission standards were introduced in 1992 (in 1994 for diesel-powered vehicles) and the tougher Euro IV standard went into effect in 2005. Euro IV requires carbon monoxide emissions to be no greater than 0.50 grams/kilometer (a sixth of Euro I standard); hydrocarbons and nitrogen oxides must be lower than 0.30g/km (a quarter); and particulate matter must be no greater than 0.025 grams in every kilometer (a seventh).

In 2006, the Korean government made three major changes to the automotive-related tax system. First, the partial exemption of the special consumption tax, which had been in effect since March of 2004, came to an end. This added an additional ₩100,000 to ₩500,000 to the price of each car.

Second, taxes have been hiked on 7 to 10-seater passenger cars. Up until 2004, these 7 to 10-seater passenger cars were classified as a van and subject to relatively low registration tax and automotive tax. But this favor would no longer be valid from 2005 as taxes would escalate over the next 3 years. Accordingly, registration tax on these 7 to 10-seater passenger cars was raised to 4.32% of supply price while automotive tax was added 16.5% of difference between vans' automotive tax and passenger cars'.

Finally, the price ratio of gasoline to diesel to LPG was revised. While the government initially planned to adjust the ratio to 100:70:65 by 2007, in light of the rising popularity of diesel-powered vehicles over LPG-fueled cars, the 2006 price ratio of gasoline to diesel to LPG stood at 100:80:50.

Other Business Related Reference Details

Sales Distribution Channel (2006)

Category	Regional Headquarters	Direct Management Branches	Dealerships
Domestic	18	340	429
Overseas	Worldwide including North America ; Overseas sales subsidiaries as the strategic points		

Sex, age group, and income segments

- ▶ As there is a noticeable increase in the influence of females in automobile purchases and with more female drivers on roads, the significance of sex related segmentation is gradually diluting.
- ▶ The major purchaser groups classified by age and income is as follows.
 - ▷ 30~40 age group (active economic activity) > 50s age group (most economically stable period) > 20s age group (weak purchasing power)
 - ▷ the middle class > the high class > the low class

Per Purchase Type

- ▶ Replacement purchases (65.4%) > Additional purchases (22.6%) > New purchases (12.0%)
 - * Additional purchase + Replacement purchase proportion: 70.2% (1996) → 88.0% (2005)

Kia's Domestic & Export Composition

(Unit, %)

	2006		2005		2004	
	Sales	Proportion	Sales	Proportion	Sales	Proportion
Domestic	269,575	23.6	265,825	24.0	250,643	24.8
Export	871,159	76.4	840,016	76.0	760,786	75.2
Total	1,140,734	100.0	1,105,841	100.0	1,011,429	100.0

Demand Fluctuation Factors

The automotive industry is highly interdependent on a complex web of parts suppliers; car makers are therefore highly sensitive to flux from other industries. Automobiles are the highest priced product of all durable goods. Even the most economical cars exceed 8 million Won. Mid-sized automobiles sell for about 21 million Won, while larger luxury cars on average cost over 30 million Won.

This has a large impact on sales elasticity; during economic slowdowns, many households choose to put off the purchase of a car. Moreover, servicing expectations are high - our customers expect to receive the kind of service that they believe corresponds to the amount of money they paid for their cars. This in turn requires precise planning with regards to A/S maintenance and warranties; car makers must therefore offer a diverse range of after sales service solutions that meet the demands of various customer segments.

New Business Prospects

Kia is planning to venture into new business lines that will raise the competitiveness and synergies between our various divisions, with the aim of cutting overall costs and adding more lifetime value to the purchase of every car. We intend to expand business into areas such as recycling, telecommunications, and auto memberships. We believe that by doing so we can raise the technological innovation of our cars while minimizing the lifetime maintenance costs associated with the initial purchase, operation & maintenance, and final disposal of our cars.

By moving first into the recycling business, we believe Kia can not only improve the margins on our cars by incorporating more recycled parts, we also believe we will be able to use our hi-tech manufacturing expertise to produce more environmentally-friendly materials. Moreover, the recycling business will allow us to develop a wider variety of automobile related products and services available to the public, through more diverse sales channels, which in turn will raise customer satisfaction level.

In the future our company plans to actively develop and provide various products and services through telecommunications sales channels to our customers. With regard to the automobile related membership business, we plan to develop various products and services required for 'Ownership & Maintenance' purposes.

This business would focus on offering our customers with a diverse range of automobile related merchandise that they need after the purchase of their new vehicle.

Business Status

Domestic Sales

Kia's 2006 domestic car sales reached 269,575, a 1.4% increase over 2005. Exports rose by 3.7% to 871,159, bringing sales to 1,140,734. This represents a respectable 3.2% increase over the previous year.

Overall domestic demand remained sluggish due to continued appreciation of the Korean Won, low consumer confidence level, and a rise in imported cars. These conditions made it difficult to substantially raise domestic sales.

Industrial demand for each segment in 2006 can be broken down as follows: -9% for RVs compared to the previous year (26,008 units ↓), an increase of 8.8% (55,758 units ↑) for passenger cars, and a 0.9% increase (1,987 units ↑) for commercial vehicles. The overall growing demand for passenger cars more than offset the fall in RV sales.



(Unit)

Segment	2005			2006				
	Domestic Market	KIA	M/S	Domestic Market	change	KIA	M/S	change
PCs	633,859	95,875	15.1%	689,617	8.8 %	115,575	16.8 %	1.7 %
RVs	290,412	112,321	38.7 %	264,404	-9.0 %	97,489	36.9 %	-1.8 %
Commercial	223,378	49,218	22.0 %	225,365	0.9 %	43,775	19.4 %	-2.6 %
Total	1,147,649	257,414	22.4 %	1,179,386	2.8 %	256,839	21.8 %	-0.6 %

* Based on KAMA new registrations data; there may be slight differences with our data

2006 passenger car (PC) sales rose by 20.5% (19,700 units ↑, a market share of 16.8%), thanks in large part to the growth of the sub-compact segment, which includes models such as Morning ('Picanto' in overseas markets) and Pride ('Rio' in overseas markets). PC sales were also helped by our large-sized model Opirus ('Amanti' in some markets). In sum, Kia's sub-compact PCs took 62.7% of market share in this segment. The completely revamped Opirus raced to the top of the market, achieving top total annual sales in the large PC segment in 2006. Opirus has the domestic prestige of an imported car. We expect Opirus to enjoy further strong sales growth within the domestic market.

Kia's RV and commercial vehicle sales declined significantly. The stagnation of RV sales was due to the overall slowdown of the market and the launch of new SUVs by competitors. Still, we expect that the fall-off in the RV sector will be temporary. New SUV sales by rivals were largely bolstered by promotional splashes; once these subside, Kia RV models such as Carens ('Rondo' in some markets) and Carnival ('Sedona' in some markets) will nicely pick up again.

Amid fierce competition with domestic automakers in 2006, we introduced various sports marketing activities to secure domestic market share by holding a victory longing event for the '2006 Germany World Cup', as well as a golf clinic with the famous LPGA world star Michelle Wie. Kia also provided cars for super bowl champion Hines Ward and the former national soccer team coach Guus Hiddink. Other non-sport related marketing activities included the 'School Zone Campaign' and 'Easy Move Campaign' - were efforts to provide convenient transportation for the disabled. Cultural marketing events included 'The Busan International Film Festival' and 'Korea-Russia Inter-Cultural Festival'.

Kia continues to achieve higher level of customer satisfaction in a variety of fields. These efforts have allowed us to take top KS-SQI(Korean Standards - Service Quality Index) honors for 3 consecutive years, as well as other awards. All of us at Kia realize that we have an obligation to give back to our neighboring communities, to repay customer loyalty with a range of community & charitable campaigns. One such way we've done so is our 'Spare Change from Wages' campaign.

Market Share per Company (Domestic)

(Unit, %)

	2006		2005		2004		Particulars
	Sales	M/S	Sales	M/S	Sales	M/S	
Kia	256,839	21.8	257,414	22.4	252,460	22.4	
Hyundai	569,441	48.3	554,282	48.3	549,321	48.6	
GM-Daewoo	131,627	11.2	108,935	9.5	111,231	9.8	
Ssangyong	56,551	4.8	74,529	6.5	101,181	9.0	
Renault-Samsung	114,523	9.7	114,510	10.0	82,934	7.3	
Others	50,405	4.3	37,979	3.3	32,133	2.9	Imports, etc.
Total	1,179,386	100.0	1,147,649	100.0	1,129,260	100.0	

* Based on KAMA new registrations data; there may be slight differences with our data

Market Share per Company & Segment (Domestic, 2006)

(Unit, %)

	PCs		RVs		Commercial		Particulars
	Sales	M/S	Sales	M/S	Sales	M/S	
Kia	115,575	16.8	97,489	36.9	43,775	19.4	
Hyundai	321,796	46.7	99,215	37.5	148,430	65.9	
GM-Daewoo	89,300	12.9	18,543	7.0	23,784	10.6	
Ssangyong	11,611	1.7	44,937	17.0	3	0.0	
Renault-Samsung	114,512	16.6	-	0.0	11	0.0	
Others	36,823	5.3	4,220	1.6	9,362	4.2	Imports, etc.
Total	689,617	100.0	264,404	100.0	225,365	100.0	

* Based on KAMA new registrations data; there may be slight differences with our data

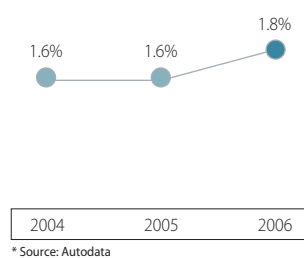
Overseas Sales

Due to multiple strains including high oil prices, rising input costs and the strong Korean Won, Kia faced several challenges in 2006. Despite these domestic pressures and fierce competition in the global auto market, we coped well with these challenges. We leveraged flexible export strategies to meet the changing needs of the market. And we managed to export 871,159 units by enhancing our sales network and introducing new / face-lift models including New Carnival ('Sedona' in some markets), New Carens ('Rondo' in some markets) and Sorento face-lift.

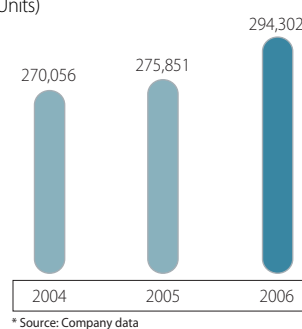
In the North American market, the overall demand for cars edged down due to higher interest rates which slowed growth in the real estate sector, as well as high oil prices. Our small and compact segments experienced growth, helped by higher oil price and new car launches. Van sales in contrast went into decline. The entire pie, or total aggregate sales of all carmakers, shrank slightly in 2006 for the North American market. Yet Kia put in place flexible countermeasures to hedge against these risks. These countermeasures included a graduated incentive program according to each model and region, and a continued improvement in the sales capability of our dealers. Kia was able to export 366,200 units (including the Entourage, a Hyundai Motor's consignment car) to North America -- a steep 21.4% rise over 2005.

Our 2006 retail sales in the US market reached 294,302 units, a 6.7% rise over the previous year. We captured 1.8% of market share, 0.2% point higher than 2005. The operation of Slovakia plant has allowed us to reduce export volume to Europe while diverting most of the reduced volume to North America. In terms of the US, the export and retail sales of Spectra ('Cerato' in some markets) were well executed. Sales of our Sportage and Sorento models were also strong.

• US M/S



• US Retail Sales (Units)



The Western European market posed some rigorous challenges for us in the form of slower demand and keener competition, as many rivals rolled out new models. Our exports to Western Europe fell by 19%, to 245,102 units. However, this can be attributed to our deliberate attempt to increase exports to North America and the opening of the new plant in Slovakia at the end of the year, which is highly expected to raise the efficiency of local retail sales.

Exports of Cerato compact sedan, to be replaced by cee'd and manufactured from the plant in Slovakia, fell substantially. The exports of Picanto mini car, whose demand has been rising in other regions, also fell.

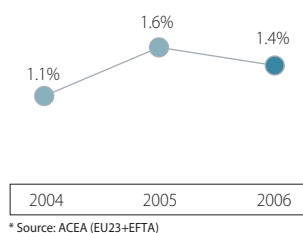
While exports to Western Europe were sharply cut, 2006 retail sales took a minor step back, falling by 2.4%, to 271,261 units sold. Market Share (source: ACEA, EU23+EFTA countries) dropped by 0.2% point to 1.4% of the total market. In spite of this minor setback, we've established a firm sales ground for cee'd, the first

Management's Discussion & Analysis

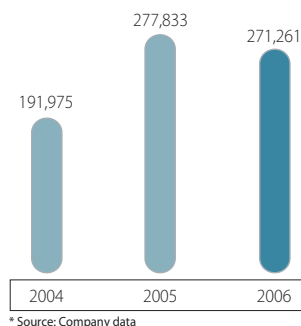
mass-produced model at the Slovakia plant. We've been successfully expanding our dealer network by focusing on bringing in more expert dealers and improving our corporate image.

We're confident that the various PR and advertising activities that we've carried out, including our sports marketing activities such as official sponsorship of the Spanish pro football team Atletico Madrid and world-famous Spanish tennis star Rafael Nadal will, over time, allow us to garner greater EU market share.

• Europe M/S



• Europe Retail Sales (Units)



In contrast to weak Western European sales, exports to the Eastern European market grew by a healthy 20% - totaling 59,925 units. We improved our sales network across Russia and favorable sales in Commonwealth of Independent States (CIS), or former Soviet Republic countries, helped as well.

2006 exports to other regions excluding North America and Europe grew by 7.7%, totaling 199,932 units. The breakdown of the numbers is as follows:

Exports to Central & South America reached 55,656 units, representing an impressive 31.6% growth. Resource-rich countries such as Chile and Venezuela enjoyed a boom in consumption on the back of strong domestic demand. Similarly in certain African & Middle East regions, rising oil prices led to rising prosperity and greater demand for automobiles. This resulted in a leap of 30% in Kia car sales, or 84,950 units, exported to these regions.

Sales in the Asia-Pacific markets fell significantly; 45,692 units were exported, a fall of 26%. The reasons for this included flatter demand, and new regulations forbidding the import of CBU (completely built-up vehicles), and stricter environmental laws. Another reason for this low performance is due to the phase-out of light commercial van.

With respect to Chinese markets like China, Hong Kong and Taiwan, exports slumped to 13,634 units, a 16.4% decrease from 2005 level owing to an economic slump in Taiwan and Hong Kong. Finally, 2006 retail sales in other regions reached 187,524 units, similar to that of the previous year (188,197 units).

• Exports per Region

Region	(Unit)		
	2006	2005	2004
USA	332,287	275,140	301,573
Canada	33,913	26,624	29,134
Western Europe	245,102	302,614	220,161
Eastern Europe/CIS	59,925	49,917	44,251
Latin America	55,656	42,299	40,206
Africa & Middle East	84,950	65,336	59,368
Asia-Pacific	45,692	61,776	54,765
China Region	13,634	16,310	11,328
Total	871,159	840,016	760,786

* CKD excluded

Sales Strategy

Domestic Business

The 2007 outlook for the domestic market is far from strong due to lackluster consumer confidence level and stagnant employment level. But the upcoming presidential election brings the hope of better times ahead. The political climate is set to change and will undoubtedly focus on stimulus measures to get the economy roaring ahead again. The demand for new cars replacing a large number of superannuated vehicles is forecasted to rise. The change in presidents that is set to take place will likely bolster consumer confidence in the second half of the year.

Kia has announced that 2007 will be the 'Year of Domestic Sales Innovation'. We will throw our weight behind expanding our domestic market share. Kia intends to focus promotions on our New Opirus ('Amanti' in some markets) - the No.1 large-sized passenger car in Korea. And we hope to see an uptick in our RV sales, since they were selected as the most satisfying RVs in the 2006 NCSI(National Customer Satisfaction Index).

Analysts anticipate that demand for passenger cars will grow in 2007. Kia intends to secure market share in the sub-compact segment by expanding the sales of Pride ('Rio' in overseas markets; the highest-ranking model in the sub-compact segment - J.D. Power 2006 IQS) and Morning ('Picanto' in overseas markets). Furthermore, an improved 2007 Lotze ('Optima' or 'Magentis' in overseas markets) is set to hit the market in April and help to increase our domestic sales. We plan to fortify our brand recognition with New Opirus through continued test-drives, ceremonial vehicle offers to many events, which is expected to pick up our sales.

In the RV segment, sales promotions will center on the LPI model version of the New Carens ('Rondo' in some markets), which is gaining popularity for its lower fuel price and alluring design. And a newer LPI version of the Carnival ('Sedona' in some markets) is scheduled for release in October of 2007.

In the area of light commercial vehicles, we will work hard to maintain our existing loyal customer groups and convert potential customers by highlighting our Bongo Truck. Advertisements will promote Bongo Truck's excellence in delivery service businesses. Sales promotion will bring out the brand value of Bongo Truck. We also plan to strengthen our corporate image through sales promotions that illustrate how we create customer loyalty through 'Before Service' programs. These promotions will target lifetime customers and will be aimed to create replacement demand.

Additionally, Kia will conduct differentiated sales promotion events linked to various cultural performances, as well as collaborative marketing efforts with domestic oil refineries and department stores. We will also offer leisure and educational camps for our customers.

While focusing our brand identity on the concept of 'Exciting & Enabling', all of us at Kia are committed to building our reputation through superior products and services.

Overseas Business

We have set our 2007 export goal at 921,000 units (KD excluded), a 5.7% rise over 2006.

Despite the many challenges we face head, Kia is committed to delivering superior value through our entire chain of operations. With determined efforts to localize management practices in each of the regions that we operate, Kia believes there is still plenty of room for growth. We can and will strengthen our sales and marketing capabilities. We want to exceed the expectations of every person or family that is investing in Kia.

To achieve the target that are in place, we aim to increase the number of overseas dealers from 3,864 as of the end of 2006, to 4,008 by the end of 2007. We will cultivate an environment in which the most professional dealers thrive. Dealerships are the heart line to our customers: every car owner deserves the best possible experience, from the moment they step onto a Kia dealership lot.

Our marketing teams are excited about the upcoming launch of the cee'd, a model to be mass-produced at the Slovakia plant. We believe expanded advertising & sales promotions will create even higher level of passion for our key models including the New Carens ('Rondo' in some markets) and Sportage. We will be actively involved in all major auto shows and dealer-related events to share 'Kia Vision' with both dealers and individual customers.

In the US we will continue advertising the Rio - the highest-ranking model in the sub-compact segment, according to the J.D. Power 2006 IQS. To address the issue of a further potential slowdown in the US market, Kia will revamp various dealership programs to improve the quality of sales and service among our dealers. The integrity of our dealerships is the beacon from which customer loyalty flows. Plans are also underway to leverage a more diversified marketing campaign through NBA sponsorship. And we will further improve our IQS scores.



Our 2007 export goal for the North American market is set at 416,000 units, a 13.5% increase over 2006. Our retail sales target for the US market is 360,000 units - a rise of 22.3%.

The successful launching of the cee'd is a pivotal next step for us. The cee'd will serve as a cornerstone for us to develop a truly global management: it will also boost demand in the mid-to-long-term horizon. Delivering the 'Kia in Europe' image to customers by publicizing the Slovakia plant and our European design center will be essential in accomplishing a success in Europe. Sports marketing campaigns will continue added UEFA sponsorship. The export target for Western European market is set at 187,000 units, a 23.6% decrease compared to 2006 - although the overall retail sales target is set at 306,000 units, or a 12.6% rise, supported by Slovakian production.

We expect to export 60,000 units to Eastern Europe including Russia and Turkey, which would be a 0.8% increase over 2006. Kia plans to sell 78,000 retail units in the market, a 34.5% jump over 2006, including cars manufactured from the Slovakia plant.

In other markets excluding Europe and North America, we have set a sales target of 258,000 units - a growth rate target of 28.9% compared to 2006. We are aiming for retail sales of 221,000 units - a 17.8% increase.

In the Central & South American markets we are intending to reach an export target of 69,000 units by focusing on the major markets including Chile and Colombia. The successful launch of the New Carens and expanding sales of our RVs should help us achieve this goal. The goal set for the African & Middle East markets is 108,000 units. We will pioneer new markets such as Tunisia and further expand sales of Picanto and RVs in major countries such as Saudi Arabia, South Africa, and Syria. Kia also plans to proactively take part in orders from local tenders.

In the Asia/Pacific markets, our export goal is 65,000 units. We will expand our market share by increasing the RV sales of our Carnival ('Sedona' in some markets) in Australia and New Zealand. We want to grow sales in Singapore and Philippines and to successfully launch the New Carens in the region. In the Chinese markets like China, Hong Kong and Taiwan we will expand our sales through a wider dealer network, and active participations in local auto shows.

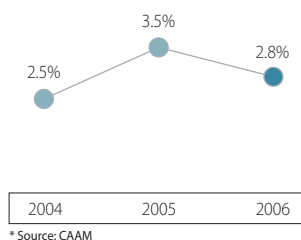
Overseas Plant Sales

Kia's plant in China, Dongfeng Yueda Kia, with an annual capacity of 130 thousand units, saw its 2006 sales growth by 4.5%. This meant a total of 115,009 units, versus 110,008 units in 2005.

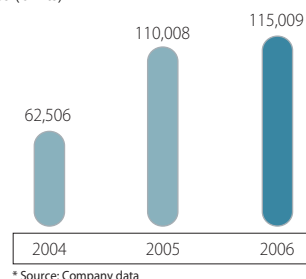
In 2006, China's industry demand (which excludes commercial vehicles) reached 4.23 million units, a leap of 35.1% over 2005 (3.13 million units). Kia's Chinese market share fell by 0.7% point, to 2.8% of the total market. Sales of the TianLiMa which will be replaced by the Rio from 2007 fared poorly. Construction of the company's second plant in China (annual capacity: 300 thousand units) will be completed in 2007. Plant #1 will focus on production of our Rio model and plant #2, with its larger capacity, will produce the Cerato (known as 'Spectra' in some markets). This rearrangement of production capacity will yield greater efficiency and cost savings.

Kia's sales target for 2007 in China is 145 thousand units. To achieve this, we will focus sales efforts on our best-selling Cerato model. We will also introduce, with great fanfare, Chinese versions of our Rio and Sportage models. Furthermore, we plan to reinforce our sales network through expanding 4S dealers, and developing dual sales channels on the basis of each car segment.

• China M/S



• China Retail Sales (Units)



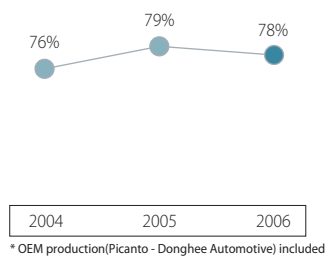
The plant in Slovakia (Kia Motors Slovakia, annual capacity: 300 thousand units) was completed in 2006. Mass production started from December of that year. This plant will produce 150 thousand units including the cee'd model in 2007, and production of other models are in planning. The Slovakia plant will be at the heart of all future success, as we feel it will be the cornerstone for us to develop a truly global management system and sustainable sales increase. Intense marketing efforts will center on the launch of the cee'd. The image of 'Kia in Europe' will be passionately portrayed by publicizing the Slovakia plant, our Europe Design Center, and though sports marketing like sponsorship of the UEFA.

Production & Utilization Rate

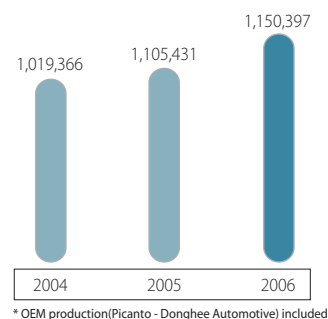
In 2006, global production including overseas plants totaled 1.27 million units. This was a climb of 4.5% over 2005, with an average utilization rate of 79%. Korean plant produced 1.15 million units (including OEM) - a modest rise of 4.1% over the previous year. Assuming a production capacity of 1.5 million units, the utilization rate was 78.4%, similar with the 2005 rate of 79.0%. The utilization rate for the majority of the year was over 80%, but fell below 60% in the third quarter, over labor strikes related with annual wage negotiations.

Our global production target for 2007 is 1.54 million units. Korean production represents 1.245 million units of that target. Our target 2007 Korean plant utilization rate is set at 83.0%.

• Utilization Rate (Korean plant)



• Production (Korean plant, units)



CapEx

Total capital expenditures of the company amounted to ₩1,756 billion in 2006, with the ratio of tangible and intangible R & D investment to sales revenue being 4.6%.

Of the ₩1,121 billion made in domestic investments, 71% or ₩793 billion has been capitalized: ₩535 billion in tangible assets and ₩258 billion in intangible assets. Tangible asset investments involve maintenance and investment in new model production facilities. Intangible assets are related to the cost of new model development. While individual depreciation periods vary according to their asset classification, our average depreciation period is 15 years. Amortization of intangible assets begins with the mass production of new models and continues for 3 years.

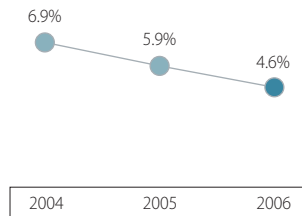
Tangible asset investments fell, from the 2005 amount of ₩811 billion, because plant rationalizing & remodeling that had been underway since 2003, came to an end. Our product life cycle also dictated that we release fewer new models than previous years. This meant Kia required a relatively lower amount of investment in new model production facilities for the year.

Overseas investment amounted to ₩635 billion: ₩250 billion in China, and ₩385 billion in Slovakia. Investment in the US plant, which began construction in October 2006, will be regularized from 2007.

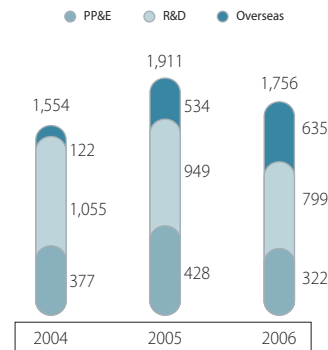
Overseas investments are provided through capital injections from our Korean headquarter and through local financing by overseas subsidiaries. In 2006, total capital injections amounted to ₩280 billion.

Management's Discussion & Analysis

• R&D Trend (% of Revenue)



• CapEx Trend (KRW in billions)

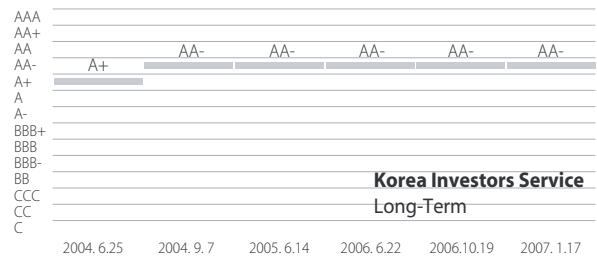
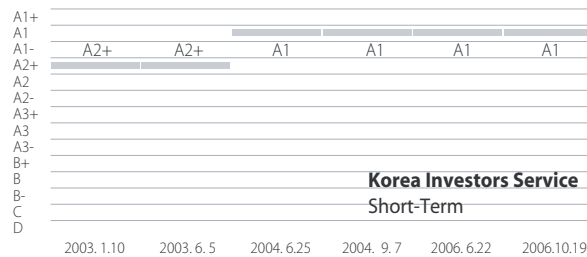


Credit Ratings

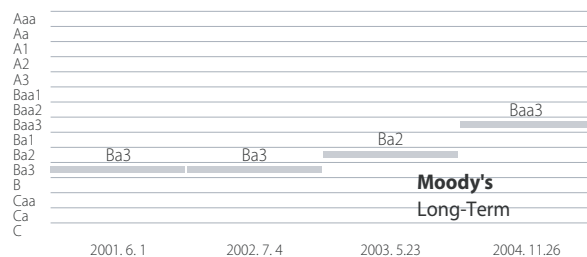
There was no change related to credit ratings in 2006. Overseas credit rating maintained a double investment grade (S&P: BBB-, Moody's: Baa3), and both short-term and long-term domestic credit ratings remained at the top level (short-term credit rating: A1, long-term credit rating: AA-).

• Credit Ratings Trend

[Domestic]



[Overseas]



Profitability

Kia had a 0.7% operating loss in 2006. The main causes of this operating were: KRW appreciation, slack domestic demand, and rising marketing expenses domestically & overseas.

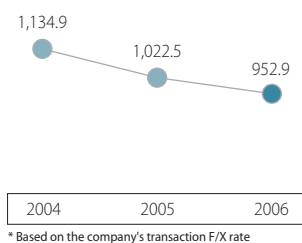
While 90% of the company's production comes out of Korea, exports represent 76% of total sales. This leaves us exposed to fluctuations in foreign exchange rates. Revenue losses caused by KRW appreciation eat into operating profits. The Korean Won appreciated 6.7% against the USD in 2006, resulting in a forex fall-out of around minus ₩800 billion.

Operating profits were further hurt by flagging domestic industrial demand. In particular, demand for RVs in which historically our sales were strong fell off due to hikes in diesel oil prices and taxes. Also the company's marketing expense increased a lot domestically & overseas because of the ongoing fierce competition and higher level of old stock during the period of model replacement. The marketing expense-to-revenue ratio was 4.0%: a rise of 1.6% point year on year.

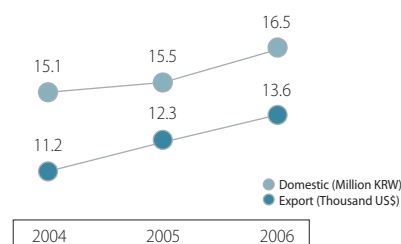
Kia is making concerted efforts to trim costs by working closely with all of our suppliers, including our sister company, to alleviate production costs. In the long term we aim to cut production costs through engineering changes in car design. On top of this, we'll reduce fixed expenses burdens by improving utilization rates, and will increase our average selling price through a better product mix.

We will additionally seek to reduce the negative impacts of F/X rate volatility by gradually increasing sales portion in domestic market and meeting overseas demands with vehicles produced in overseas plants. The plant in Slovakia has already started mass production since December 2006. Once the construction of plant #2 in China (completion late 2007) and the plant in US (completion late 2009) are done, 40% of our production facilities will be located overseas.

• F/X Rate (USD/KRW)



• ASP Change



In 2006, our domestic average selling price (ASP) was ₩16.5 million, a rise of 6.6% over 2005 (₩15.5 million). This rise was due to the launch of the New Carens ('Rondo' in some markets) and New Opirus ('Amanti' in some markets). The New Opirus, the most expensive model within our line-up, now comprises 34% of total domestic passenger car sales revenue.

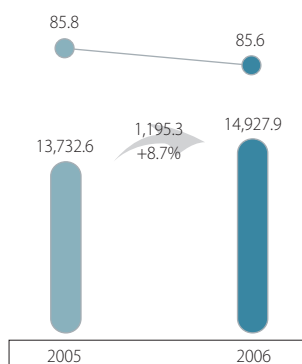
The ASP of exports in 2006 was \$13,600, up 10.8% from the 2005 figure of \$12,300. This reflects a rise in the price of export models including face-lifted Sorento. And we improved our product mix by exporting more New Carnival ('Sedona' in some markets) and New Optima/Magentis.

COGS and SG&A

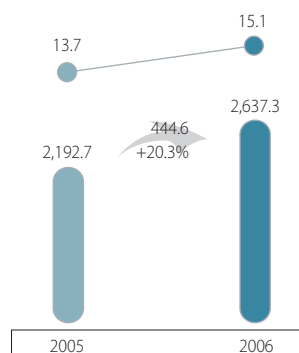
The COGS-to-revenue ratio was 85.6% - a decline of 0.2% point year on year. In the face of revenue shrinkage linked to a stronger Won and increased overhead cost like R&D expenses, we kept the COGS-to-revenue ratio steady by increasing sales volume, improving our product mix, and through intensive cost reductions.

But SG&A expenses increased by 1.4% point, to 15.1% of revenue. As competition intensified domestically and overseas, marketing expense-to-revenue ratio increased by 1.6% point yoy (2005: 2.4% → 2006: 4.0%). R&D expenses related to advanced technology developments also rose by ₩55 billion (2005: 0.8% of revenue → 2006: 1.1% of revenue). For these reasons the SG&A-to-revenue ratio increased considerably.

• COGS (KRW in billions, % of Revenue)



• SG&A (KRW in billions, % of Revenue)



Non-Operating Income and Expense

2006 net non-operating income totaled ₩199 billion, a drop of ₩417 billion year on year. In 2005, there were several one-off gains on the non-operating side. First, there was a ₩262 billion gain from a valuation method change related to Hyundai Steel. Second, there was a ₩51 billion related to the sale of investments. Finally, the company earned other income of ₩64 billion resulting from a law suit termination against a financial institution.

Net interest expense came to ₩25 billion which increased by ₩10 billion year on year due to increase of debt. Foreign exchange gain/loss recorded a net loss of ₩0.8 billion this year (versus a ₩96 billion gain in 2005), since liabilities in the Euro took up a significant part in the company's total foreign liabilities. While appreciation of the Korean Won against the Euro led to a gain in 2005, this reversed turned to a loss in 2006.

Net equity gains fell from ₩431 billion in 2005 to ₩278 billion in 2006, but there was a ₩117 billion one-off item in 2005.

Net Income / Income Tax Expense

The strong Won, slack RV demand in Korea market and rising marketing expenses led to an operating loss of ₩125 billion. Recurring profit was ₩73 billion thanks to net non-operating income of ₩199 billion including an equity gain. Net profit came to ₩39 billion. We were hit by a relatively high income tax this year (₩34 billion, an effective tax rate of 46%) despite our weak performance. This was due to the retroactive application of ₩75 billion in tax expenses: this retroactive application of tax expenses was required in first quarter since amendments to Korean income tax laws regarding equity gains came into effect. Because Kia has significant investment tax credits stemming from operating loss and other areas, our income tax rate is estimated to be under 25% compared to the normal income tax rate of 27.5% (unless we record a significant operating surplus in the next 1~2 years).

Assets

	2006	2005	2004
(KRW in millions)			
Assets	12,106,605	11,241,785	10,685,879
Cash & Cash Equivalents	631,608	1,116,724	1,560,517
Liabilities	6,858,849	5,989,417	5,721,456
Debt	2,940,150	2,046,040	1,691,219
Shareholders' Equity	5,247,756	5,252,368	4,964,423

Current Assets

Cash balances at the end of 2006 including cash & cash equivalents, and short-term financial instruments, came to ₩632 billion, a decline of ₩485 billion versus 2005. Cash & cash equivalents came to ₩522 billion while short-term financial instruments totaled ₩110 billion. The fall in the cash balance can be attributed to an increase in working capital expenditures resulting from a weaker operating performance, increase in accounts receivable and decrease in accounts payable.

One of the main factors for the increase in accounts receivable was that compared with previous years, there were an unusually high number of holidays at the end of 2006 when shipment volumes reached their peak. This led to difficulties in cashing accounts receivable through banks, and consequently to an increase in accounts receivable, while accounts receivable were significantly liquidated by issuing asset backed commercial paper (ABCP) in 2005. Accounts payable, in contrast, dipped due to a new cash-based payment policy geared to small and medium-sized suppliers.

Fixed Assets

With regard to fixed assets, investments totaled ₩2,982 billion, an increase of ₩652 billion over 2005. Equity securities, using the equity method, rose to ₩2,484

billion, up ₩615 billion from the previous year. Capital increases were the result of our affiliated companies (Slovakia plant: ₩216 billion, China plant: ₩77 billion) and gains were the result of higher share values in equities we own (e.g.: Hyundai Mobis, Hyundai Steel).

Tangible assets for 2006 totaled ₩5,230 billion, similar to the 2005 level: Investment and depreciation figures were similar. For the same reason, intangible assets remained at ₩773 billion, similar to the 2005 figure.

Liabilities

Company debt totaled ₩2,940 billion, up ₩894 billion from the previous year. Debt has been increasing due to a weaker-than-expected operating performance and continuous capital expenditures in R&D and overseas facilities. However we are confident that the conditions will notably improve once profitability perks up and our overseas investments are completed. We will focus on improving profitability and maintaining a stable credit-line to ensure liquidity.

Current Liabilities

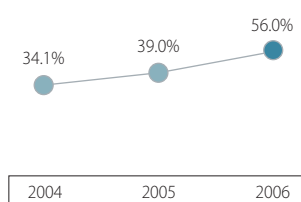
Accounts payable fell to ₩1,694 billion, down by ₩274 billion from 2005. This is due a change in trade terms for our small and medium-sized suppliers. Short-term borrowings were ₩660 billion, a rise of ₩347 billion related to the financing of working capital. The current portion of long-term borrowings rose to ₩316 billion, up ₩250 billion from the previous year while fixed long-term borrowings declined by ₩206 billion from the previous year to ₩349 billion.

Long-term Liabilities

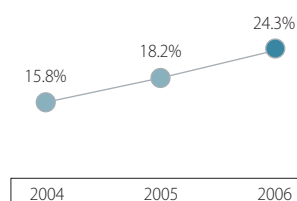
Total debentures totaled ₩1,429 billion (excluding current portions), a rise of ₩510 billion over the previous year. In 2006 we issued ₩700 billion in corporate debentures for repayment and capital expenditures.

Despite the increase of units in operation (UIO) to keep up with increased sale volumes, short and long-term warranty provisions declined by ₩21 billion. This largely reflects a fall in foreign currency reserves triggered by KRW appreciation, as these reserves constitute 80% of our total warranty provisions. Also the quality level of our products is improving continuously.

• Debt/Equity



• Debt/Total Assets



Equity

As of the end of 2006, total equity reached ₩5,248 billion, a similar level to 2005. Retained earnings dropped by ₩47 billion. ₩87 billion was paid out in dividends while net income totaled ₩39 billion. Capital adjustments rose by ₩42 billion: this change was related to valuation of our equity securities under the equity method.



The Board of Directors and Stockholders

Kia Motors Corporation:

We have audited the accompanying non-consolidated balance sheet of Kia Motors Corporation (the "Company") as of December 31, 2006, and the related non-consolidated statements of income, appropriation of retained earnings and cash flows for the year then ended. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. The accompanying non-consolidated financial statements of the Company as of December 31, 2005, were audited by other auditors, whose report thereon dated January 26, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kia Motors Corporation as of December 31, 2006, and the results of its operations, the appropriation of its retained earnings, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 1(b) to the non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable in Korean accounting principles and auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

Seoul, Korea

January 31, 2007

: : This report is effective as of January 31, 2007, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Non-Consolidated Balance Sheets

December 31, 2006 and 2005

	(In millions of Won)	
	2006	2005
Assets		
Current assets:		
Cash and cash equivalents (note 16)	₩ 521,608	906,724
Short-term financial instruments	110,000	210,000
Accounts and notes receivable - trade, less discount on present value of ₩2,329 in 2006 and ₩2,338 in 2005 and allowance for doubtful accounts of ₩127,849 in 2006 and ₩163,519 in 2005 (notes 3, 8 and 16)	1,173,926	533,484
Accounts receivable - other, less of allowance for doubtful accounts of ₩83,754 in 2006 and ₩69,594 in 2005 (notes 8 and 16)	185,854	155,224
Inventories (notes 4 and 9)	903,395	870,892
Deferred income tax assets - current (note 26)	177,716	196,615
Other current assets (notes 5 and 20)	49,753	42,962
Total current assets	3,122,252	2,915,901
Long-term investment securities (notes 6 and 12)	42,548	50,186
Equity method securities (notes 7 and 8)	2,483,683	1,868,397
Property, plant and equipment, at cost (notes 9 and 12)	8,206,494	7,846,196
Less accumulated depreciation	(2,976,896)	(2,613,633)
Net property, plant and equipment	5,229,598	5,232,563
Intangible assets (note 10)	772,550	763,045
Deferred income tax assets - non-current (note 26)	244,248	190,040
Other assets (notes 2, 11 and 16)	211,726	221,653
Total assets	₩ 12,106,605	11,241,785

See accompanying notes to non-consolidated financial statements.

	(In millions of Won)	
	2006	2005
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts and notes payable - trade (notes 8 and 16)	₩ 1,694,370	1,968,555
Short-term borrowings (notes 14 and 16)	659,979	312,691
Provision for warranties (note 17)	272,741	259,704
Accounts and notes payable - other (notes 8 and 16)	702,394	604,189
Income taxes payable	—	2,244
Current portion of long-term debt (notes 15 and 16)	502,127	258,565
Other current liabilities (notes 13 and 16)	271,493	73,487
Total current liabilities	4,103,104	3,479,435
Long-term debt (notes 12, 15 and 16)	1,778,043	1,474,784
Long-term provision for warranties (note 17)	430,748	464,448
Deposits received	15,499	16,425
Accrual for retirement and severance benefits (note 18)	531,455	554,325
Total liabilities	6,858,849	5,989,417
Stockholders' equity: (note 21)		
Common stock of ₩5,000 par value (note 21)		
Authorized - 820,000,000 shares		
Issued - 347,230,455 shares in 2006 and 2005		
Outstanding - 346,628,405 shares in 2006 and 346,516,719 shares in 2005	1,848,652	1,848,652
Capital surplus (notes 21 and 22)	1,703,844	1,703,011
Retained earnings (notes 21 and 23)	1,832,861	1,880,153
Capital adjustments (notes 6, 7, 21, 24 and 29)	(137,601)	(179,448)
Total stockholders' equity	5,247,756	5,252,368
Commitments and contingencies (note 19)		
Total liabilities and stockholders' equity	₩ 12,106,605	11,241,785

See accompanying notes to non-consolidated financial statements

Non-Consolidated Statements of Income



Years ended December 31, 2006 and 2005

	(In millions of Won, except earnings per share)	
	2006	2005
Sales (notes 8 and 33)	₩ 17,439,910	15,999,356
Cost of sales (note 8)	14,927,949	13,732,641
Gross profit	2,511,961	2,266,715
Selling and administrative expenses (note 25)	2,637,252	2,192,713
Operating income (loss)	(125,291)	74,002
Other income (expense):		
Interest income	127,981	97,373
Interest expense	(152,641)	(112,349)
Foreign currency translation gain (loss), net	(6,428)	88,307
Foreign currency transaction gain, net	7,931	4,628
Loss on scrapping of inventories	(1,767)	(5,008)
Dividend income	536	245
Equity in income of affiliates, net (note 7)	277,755	431,140
Loss on sale of accounts and notes receivable - trade	(124,096)	(86,173)
Gain on valuation of investment securities	—	145,155
Other bad debt expenses	—	(20,112)
Loss on impairment of investments	(57)	(27,421)
Gain on sale of investments, net	345	71,638
Gain on valuation of derivatives (note 20)	111	3,050
Loss on transaction of derivatives, net (note 20)	(2,484)	—
Loss on sale of property, plant and equipment, net	(21,278)	(89,967)
Other, net	92,596	114,897
Income before income taxes	73,213	689,405
Income taxes (note 26)	33,876	8,501
Net income	39,337	680,904
Basic earnings per share of common stock in Won (note 27)	114	1,967
Diluted earnings per share of common stock in Won (note 27)	₩ 113	1,964

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Appropriation of Retained Earnings



Years ended December 31, 2006 and 2005
Date of Appropriation for 2006: March 16, 2007
Date of Appropriation for 2005: March 17, 2006

	(In millions of Won)	
	2006	2005
Unappropriated retained earnings		
Balance at beginning of year	₩ 24	(97,751)
Net income	39,337	680,904
Balance at end of year before appropriation	39,361	583,153
Appropriation of retained earnings:		
Legal reserve	—	8,700
Reserve for technological development	39,300	487,800
Dividends - nil in 2006 and 5% on par value at ₩250 Won per share in 2005 (note 28)	—	86,629
	39,300	583,129
Unappropriated retained earnings to be carried over to subsequent year	₩ 61	24

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Cash Flows

Years ended December 31,
2006 and 2005

	(In millions of Won)	
	2006	2005
Cash flows from operating activities:		
Net income	₩ 39,337	680,904
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	460,149	444,256
Amortization	249,570	168,559
Provision for retirement and severance benefits	357,508	270,082
Provision for warranties	246,556	245,440
Allowance for doubtful accounts	2,924	—
Other bad debt expense	—	20,112
Foreign currency translation loss (gain), net	6,428	(88,244)
Loss on scrapping of inventories	6,401	5,008
Equity in income of affiliates, net	(277,755)	(431,140)
Dividends from equity method securities	34,648	34,460
Gain on sale of investments, net	(345)	(71,638)
Loss on impairment of investments	57	27,421
Loss on sale of property, plant and equipment, net	21,278	89,967
Interest income	(427)	(1,535)
Interest expense	2,093	1,889
Gain on valuation of derivatives	(111)	(3,050)
Gain on valuation of investment securities	—	(145,155)
Loss on sale of accounts and notes receivable - trade	124,096	86,173
Other, net	—	(88)
Changes in assets and liabilities:		
Increase in accounts and notes receivable - trade	(738,538)	(274,923)
Decrease in long-term accounts receivable - trade	2,175	3,243
Increase in inventories	(38,904)	(6,247)
Increase in accounts receivable - other	(43,129)	(79,883)
Decrease in other current assets	2,097	15,914
Decrease (increase) in deferred income tax assets	22,344	(16,762)
Decrease in accounts and notes payable - trade	(274,156)	(16,873)
Increase (decrease) in accounts and notes payable - other	98,623	(20,779)
Increase in other current liabilities	198,030	8,408
Decrease in income taxes payable	(2,244)	(42,062)
Payment of warranty costs	(267,219)	(285,596)
Payment of retirement and severance benefits	(472,676)	(185,265)
Other, net	9,640	6,164
Net cash provided by (used in) operating activities	₩ (231,550)	438,760

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Cash Flows

Years ended December 31,
2006 and 2005

	(In millions of Won)	
	2006	2005
Cash flows from investing activities:		
Decrease in short-term financial instruments	₩ 100,000	560,000
Decrease in long-term financial instruments	122	1,949
Proceeds from sale of long-term investments	3,691	11,457
Proceeds from sale of equity method securities	4,668	195,501
Proceeds from sale of property, plant and equipment	50,300	28,640
Decrease in deposit for severance benefit insurance	241,262	102,453
Decrease in other assets	8,842	13,554
Purchase of long-term investment securities	(2,714)	(8,399)
Purchase of equity method securities	(385,713)	(232,315)
Additions to property, plant and equipment	(528,763)	(820,518)
Additions to intangible assets	(259,075)	(320,571)
Increase in deposit for severance benefit trust	(158,604)	(166,870)
Increase in other assets	(35,077)	(11,227)
Net cash used in investing activities	(961,061)	(646,346)
Cash flows from financing activities:		
Proceeds from short-term borrowings	350,843	—
Proceeds from long-term debt	861,305	876,103
Repayment of short-term borrowings	—	(53,268)
Repayment of current portion of long-term debt	(259,267)	(257,894)
Repayment of long-term debt	(58,735)	(121,906)
Dividends paid	(86,623)	(121,164)
Other, net	(28)	1,922
Net cash provided by financing activities	807,495	323,793
Net increase (decrease) in cash and cash equivalents	(385,116)	116,207
Cash and cash equivalents at beginning of year	906,724	790,517
Cash and cash equivalents at end of year	₩ 521,608	906,724

See accompanying notes to non-consolidated financial statements.

(1) Summary of Significant Accounting Policies and Basis of Presenting Financial Statements

(a) Organization and Description of the Business

Kia Motors Corporation (the "Company"), one of the leading motor vehicle manufacturers in Korea, was established on December 1944 under the laws of the Republic of Korea to manufacture and sell a range of passenger cars, recreational vehicles and other commercial vehicles in the domestic and international markets. The Company owns and operates three principal automobile production bases: the Sohari factory, the Hwasung factory and the Kwangju factory.

The shares of the Company have been listed on the Korea Exchange since 1973. As of December 31, 2006, the Company's largest shareholder is Hyundai Motor Company, which holds 38.7 percent of the Company's stock.

Major overseas subsidiaries for international sales are Kia Motors America, Inc. (KMA) in the United States, Kia Canada, Inc. (KCI) in Canada, Kia Motors Deutschland GmbH (KMD) and Kia Motors Europe GmbH (KME) in Germany. Also, the Company established an overseas assembly subsidiary in Zilina, Slovak Republic on February 26, 2004 to establish a production capacity in Europe. The construction of the plant in Zilina was completed and the production started from the end of 2006.

(b) Basis of Presenting Financial Statements

The Company maintains its accounting records in Korean Won and prepares statutory non-consolidated financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended solely for use by only those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements.

Certain information included in the Korean language non-consolidated financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying non-consolidated financial statements.

The accompanying non-consolidated financial statements include only the accounts of the Company, but do not consolidate the accounts of any of its subsidiaries. Instead, these subsidiaries are accounted for under the equity method of accounting (see note 7).

Effective January 1, 2006, the Company adopted Statements of Korea Accounting Standards No. 19, Leases, and No. 20, Related Party Disclosures. The adoption of these standards did not have a significant impact on accompanying non-consolidated financial statements. As allowed by these standards, prior year balances have not been reclassified to conform to the current year presentation.

(c) Cash Equivalents

The Company considers short-term financial instruments with maturities of three months or less at the acquisition date to be cash equivalents.

(d) Financial Instruments

Short-term financial instruments are instruments handled by financial institutions which are held for short-term cash management purposes, maturing within one year. Such investments may include time deposits, installment savings deposits and restricted bank deposits.

(e) Allowance for Doubtful Accounts

The allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection. However, when principals of trade accounts and notes receivable, interest rate or repayment period are changed unfavorably for the creditor by a court imposition, such as on commencement of reorganization, or by mutual agreements and the difference between nominal value and present value is material, the difference is recognized as bad debt expense.

(f) Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs. The cost of inventories is determined on the specific identification method for materials in transit and on the moving-average method for all other inventories. The amount of any write-down of inventories to net realizable value due to obsolescence or excess inventory and other losses of inventories occurring in the normal course of business are recognized as cost of goods sold and such valuation losses are deducted from the inventories as allowance for valuation losses.

The Company recognizes interest costs and other financial charges on borrowings associated with inventories that require a long period in the acquisition, construction or production as an expense in the period in which they are incurred.

(g) Investments in Securities

Upon acquisition, the Company classifies certain debt and equity securities into one of the three categories: held-to-maturity, available-for-sale, or trading securities and such determination is reassessed at each balance sheet date. Investments in debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

Trading securities are carried at fair value, with unrealized holding gains and losses included in current income. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a capital adjustment, net of tax. Investments in equity securities that do not have readily determinable fair values are stated at cost. Investments in debt securities that are classified into held-to-maturity are reported at amortized cost at the balance sheet date and such amortization is included in interest income.

The fair value of marketable securities is determined using quoted market prices as of the period end. Non-marketable debt securities are recorded at the fair values derived from the discounted cash flows by using an interest rate deemed to approximate the market interest rate. The market interest rate is determined by the issuers' credit rate announced by the accredited credit rating agencies in Korea. Money market funds are recorded at the fair value determined by the investment management companies.

Trading securities are classified as current assets, whereas available-for-sale securities and held-to-maturity securities are classified as long-term investments. However, available-for-sale securities whose maturity dates are due within one year from the balance sheet date or whose likelihood of being disposed of within one year from the balance sheet date is probable are classified as current assets. Likewise, held-to-maturity securities whose maturity dates are due within one year from the balance sheet date are classified as current assets.

A decline in market value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value and the impairment loss is charged to current results of operations.

(h) Investment Securities under the Equity Method of Accounting

Investments in affiliated companies of which the Company owns 20% or more of the voting stock or over which the Company has significant management control are stated at an amount as determined using the equity method. Under the equity method of accounting, the Company's initial investment is recognized at cost and is subsequently increased or decreased to reflect the changes in Company's share of the net assets of investee. The Company's share of the profit or loss of the investee is recognized in the Company's profit or loss and other changes in the investee's equity are recognized directly in the corresponding equity account of the Company. If the Company holds other investments such as preferred stock or loans issued by the investee, the Company's share of loss of the investee continues to be recorded until such other investments are reduced to zero.

Any excess in the Company's acquisition cost over the Company's share of the net fair value of the investee's identifiable net assets is considered as goodwill and amortized by the straight-line method over the estimated useful life. The amortization of such goodwill is recorded against the equity in income (losses) of affiliates. When events or circumstances indicate that carrying amount may not be recoverable, the Company reviews goodwill for any impairment.

Assets and liabilities of foreign-based companies accounted for using the equity method are translated at current rate of exchange at the balance sheet date while profit and loss items in the statement of income are translated at average rate and capital account at historical rate. The translation gains and losses arising from collective translation of the foreign currency financial statements of foreign-based companies are offset and the balance is accumulated as capital adjustment.

Under the equity method of accounting, unrealized gains and losses on transactions with an investee are eliminated to the extent of the investor's interest in the investee. However, unrealized gains and losses from a down-stream transaction with a subsidiary are eliminated entirely.

Investments in affiliated companies are reduced when dividends are declared by shareholders' meeting of the respective affiliated companies.

(i) Property, Plant and Equipment

Property, plant and equipment are stated at cost, except in the case of revaluation made in accordance with the old Asset Revaluation Law. However, assets acquired through exchange, investment in kind or donation are recorded at their fair value upon acquisition.

Significant additions or improvements extending useful lives of assets are capitalized. However, normal maintenance and repairs are charged to expense as incurred.

Depreciation is computed by the straight-line method over the estimated useful lives of the assets as follows:

	Useful lives (years)
Buildings and structures	20-40
Machinery and equipment	15
Dies, molds and tools	5
Vehicles	5
Other equipment	5

The Company recognizes interest costs and other financial charges on borrowings associated with the production, acquisition, construction of property, plant and equipment as an expense in the period in which they are incurred.

The Company reviews the property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the expected estimated undiscounted future net cash flows from the use of the asset and its eventual disposal are less than its carrying amount.

(j) Intangible Assets

Intangible assets are stated at cost less accumulated amortization, as described below:

(i) Research and Development Costs

To assess whether an internally generated intangible asset meets the recognition criteria, the Company classifies the generation process into a research phase and a development phase. All costs incurred during the research phase shall be expensed as incurred. Costs incurred during the development phase shall be recognized as assets only if they satisfy all criteria for recognition. An intangible asset shall be recognized only if (1) it is probable that future economic benefits that are attributable to the asset will flow into the entity and (2) the cost of the asset can be measured reliably. If the costs incurred fail to satisfy all of these criteria, they shall be recorded as periodic expenses as incurred. Development cost is capitalized and amortized on a straight-line basis over the expected periods to be benefited, generally three years. The expenditure capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads.

(ii) Other Intangible Assets

Other intangible assets, which consist of industrial property rights and right of utilization, are stated at cost less accumulated amortization and impairment losses. Such intangible assets are amortized using the straight-line method over a reasonable period, generally five or ten years, based on the nature of the asset.

When the recoverable amount of the intangible assets are substantially below the carrying amount of the assets due to obsolescence and sharp decline in its market value and others, the Company reduces its carrying amount to the recoverable amount and the amount impaired is recognized as impairment loss.

(k) Discount (Premium) on Debentures

Discount (premium) on debentures issued, which represents the difference between the face value and issuance price of debentures, is amortized (accrued) using the effective interest method over the life of the debentures. The amount amortized (accrued) is included in interest expense.

(l) Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on current salary rates of pay and length of service when they leave the Company. The Company's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying non-consolidated balance sheets. A portion of the liability is covered by an employees' severance benefits trust where the employees have a vested interest in the deposit with the insurance company in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying non-consolidated balance sheets as a reduction of the liability for retirement and severance benefits.

Through March 1999, under the National Pension Scheme of Korea, the Company transferred a certain portion of retirement allowances for employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be payable to the employees when they leave the Company and is accordingly reflected in the accompanying non-consolidated financial statements as a reduction of the retirement and severance benefits liability. However, due to the new regulation effective April 1999, such transfers to the National Pension Fund are no longer required.

(m) Valuation of Receivables and Payables at Present Value

Receivables and payables arising from long-term cash loans/borrowings and other similar transactions are stated at present value. The difference between the nominal value and present value of related receivables or payables is amortized using the effective interest method. The amount amortized is included in interest expense or interest income.

(n) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the rates of exchange on the balance sheet date that are permitted by the Financial Accounting Standards, with the resulting gains or losses recognized in the results of operations. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate on the date of the transaction.

(o) Derivatives

Derivative instruments are recorded either as an asset or a liability measured principally at the fair value of rights or obligations associated with the derivative contracts. The unrealized gain or loss from derivative transactions is recognized in current operations. However, for derivative instruments with the purpose of hedging the exposure to the variability of cash flows of a forecasted transaction, the hedge-effective portion of the derivative's gain or loss is deferred as a capital adjustment, a component of stockholders' equity. The deferred gain or loss will be adjusted to the related asset or liability resulted from the forecasted transaction, or adjusted to income when the forecasted transaction affects the income statement. The ineffective portion of the gain or loss is recognized in current operations.

(p) Stock Options

The stock option program allows the Company's employees to acquire shares of the Company for a specified price at specified times. The option exercise price is generally fixed at below the market price of underlying shares at the grant date. The Company values equity-settled stock options based upon an option pricing model under the fair value method and recognizes this value as an expense and capital adjustment over the period in which the options vest. When the options are exercised, equity is increased by the amount of the proceeds received which is equal to the exercise price. However, compensation cost for cash-settled stock options is measured each period based on the current stock price and is recognized as an expense and a liability over the service period.

(q) Provision, Contingent Assets and Contingent Liabilities

Provisions are recognized when all of the following are met: (1) an entity has a present obligation as a result of a past event, (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, a provision is recorded at the present value of the expenditures expected to be required to settle the obligation.

Where the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset when, and only when, it is virtually certain that reimbursement will be received if the Company settles the obligation. The expense relating to a provision is presented net of the amount recognized for a reimbursement.

The Company generally provides a warranty to the ultimate consumer for each product sold and accrues warranty expense at the time of sale based on actual claims history. Also, the Company accrues potential expenses, which may occur due to product liability suit and voluntary recall campaign pending as of the balance sheet date. Additionally, the Company recognizes accrued liabilities of the provision for the projected costs for dismantling and recycling vehicles that the Company sold in the European Union region to comply with a European Parliament directive regarding End-of-Life Vehicles (ELV), in which manufacturers are financially responsible for a portion of the cost of dismantling and recycling of the vehicles placed in service. If the effect of the time value of money is material, the provision is valued at present value of the expenditures expected to be required to settle the obligation.

(r) Revenue Recognition

The Company recognizes revenue from the sale of goods when the goods are delivered. Revenue from other than the sale of goods is recognized when the Company's revenue-earning activities have been substantially completed, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Company.

Long-term installment sales are recognized at the time of shipment of motor vehicles and parts when the significant risks and rewards of ownership of the goods have been transferred to buyer. The interest income arising from long-term installment sales contracts is recognized using the level yielding method.

(s) Income Taxes

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting or the expected reversal date of the temporary difference for those with no related asset or liability such as loss carryforwards and tax credit carryforwards. The deferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability.

Deferred taxes are recognized on the temporary differences related to unrealized gains and losses on investment securities that are reported as a separate component of capital adjustments.

(t) Earnings Per Share

Basic earnings per share are calculated by dividing net income by the weighed-average number of shares of common stock outstanding during each period. Diluted earnings per share is determined in the same manner as basic earnings per share except that the number of shares is increased and earnings is decreased to assume exercise of potentially dilutive stock options, unless the effect of such increase would be anti-dilutive.

(u) Use of Estimates

The preparation of non-consolidated financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires

management to make estimates and assumptions that affect the amounts reported in the non-consolidated financial statements and related notes to non-consolidated financial statements. Actual results could differ from those estimates.

(2) Restricted Deposits

Financial instruments which are restricted in use as guarantee deposits for maintaining checking accounts as of December 31, 2006 and 2005 are as follows:

	2006		2005
	Won (millions)		
Long-term financial instruments	₩	32	32

(3) Transfers of Trade Accounts Receivable

Outstanding trade accounts and notes receivable transferred to and discounted with banks, and excluded from the accompanying balance sheets, on which the Company remains contingently liable as of December 31, 2006 and 2005 are summarized as follows:

	2006		2005
	Won (millions)		
Trade accounts receivable	₩	3,199,110	2,739,202
Trade notes receivable		—	75,448
	₩	3,199,110	2,814,650

(4) Inventories

Inventories as of December 31, 2006 and 2005 are summarized as follows:

	2006		2005
	Won (millions)		
Merchandise	₩	8,902	4,805
Finished goods		472,698	380,150
Semi-finished goods		138,687	167,104
Work-in-process		59,130	89,196
Raw materials		119,408	135,227
Supplies		51,871	46,190
Materials-in-transit		52,699	48,220
	₩	903,395	870,892

(5) Other Current Assets

Other current assets as of December 31, 2006 and 2005 are summarized as follows:

	2006		2005
	Won (millions)		
Accrued income	₩	19,503	15,359
Advance payments, less allowance for doubtful accounts of ₩3,871 in 2006 and ₩33,200 in 2005		23,207	20,616
Prepaid expenses		6,565	3,285
Guarantee deposits		367	652
Derivative instruments - debit		111	3,050
	₩	49,753	42,962

(6) Long-term Investment Securities

Long-term investment securities other than those accounted for using the equity method as of December 31, 2006 and 2005 are summarized as follows:

(a) Long-term investment securities as of December 31, 2006 and 2005 are summarized as follows:

	2006		2005
	Won (millions)		
Available-for-sale securities	₩	37,643	47,459
Held-to-maturity securities		4,905	2,727
	₩	42,548	50,186

(b) Available-for-sale securities

(i) Marketable securities recorded at fair value:

	Percentage of ownership	2006		2005
		Acquisition cost	Fair value	Fair value
KT Freetel Co., Ltd.	0.12 %	₩ 7,200	6,621	5,486
Hyundai Development Company	0.25 %	3,761	10,650	8,588
SeAH Besteel Co., Ltd.	0.17 %	854	1,422	1,269
Kanglim Co., Ltd.	0.38 %	347	50	55
Other	—	30	2	1
		₩ 12,192	18,745	15,399

(ii) Non-marketable securities recorded at cost:

	Percentage of ownership	2006		2005
		Acquisition cost	Book value	Book value
Korea Investment Mutual Saving& Finance Co., Ltd.	0.41 %	₩ 3,000	3,000	3,000
Kihyup Technology Banking Corp.	2.41 %	700	700	700
THE SIGN Co., Ltd.	5.80 %	600	600	600
Dongyung Industries Co., Ltd.	19.23 %	241	241	241
Namyang Industrial Co., Ltd.	8.00 %	200	200	200
The Korea Economic Daily Co., Ltd.	4.35 %	4,168	4,168	4,168
Pilot Asset Securitization Specialty Co. - beneficiary certificate	—	8,252	9,269	22,361
Other	—	720	720	790
		₩ 17,881	18,898	32,060

These non-marketable securities are recorded at cost since fair value is not available except for Pilot Asset Securitization Specialty Co. - beneficiary certificate, which is recorded at the value assessed by Woori bank.

(iii) Changes in unrealized holding gains

Changes in unrealized gains for the years ended December 31, 2006 and 2005 are summarized as follows:

	2006		2005
			Won (millions)
Beginning balance	₩	14,783	140,114
Realized gains on disposition of securities		(378)	(2,681)
Change due to reclassification into equity method (*)		—	(145,155)
Other changes in unrealized gains and losses		(6,835)	22,505
Ending balance		7,570	14,783
Income tax effect		(1,950)	(4,065)
Net balance at end of period	₩	5,620	10,718

(*) Common stock of Hyundai Steel Company (formerly, INI Steel Co., Ltd.) was reclassified from available-for-sale securities into equity-method securities and the related previously unrealized gain was realized in 2005.

(c) Held-to-maturity securities

	Face Value		Book value	
			2006	2005
			Won (millions)	
Government and municipal bonds	₩	4,905	4,905	2,727

Maturities of debt securities classified as held-to-maturity at December 31, 2006 were as follows:

	Book value	
	Won (millions)	
Due after one year through five years	₩	2,847
Due after five years		2,058
	₩	4,905

(7) Equity Securities Accounted for Using Equity Method

(a) Investments in affiliated companies accounted for using the equity method as of December 31, 2006 are as follows:

Won (millions)

Company	Shares owned	Percentage of ownership	Cost	Net assets	Balance at December 31, 2006
Listed:					
Hyundai Mobis Co., Ltd.(*1)	15,558,120	18.13%	₩ 118,993	620,967	626,726
Hyundai Hysco Co., Ltd.(*1)	11,154,680	13.91%	37,479	137,807	106,599
Hyundai Steel Company (formerly, INI Steel Co., Ltd.)	18,159,517	21.39%	245,153	752,156	429,513
Hyundai Autonet Co., Ltd.(*1)	20,652,178	8.91%	2,581	40,977	40,952
Unlisted:					
Kia Motors America, Inc.	1,000,000	100.00%	66,798	63,143	—
Kia Canada, Inc.	5,198	82.53%	58,507	(67,386)	—
Kia Motors Deutschland GmbH	—	100.00%	53,139	(111,827)	—
Kia Motors Europe GmbH	—	100.00%	114,171	(275,165)	—
Kia Tigers Co., Ltd.	400,000	100.00%	20,300	(189)	—
Kia Japan Co., Ltd.	2,000	100.00%	33,197	17,984	17,984
Kia Motors Slovakia S.r.o.	—	100.00%	451,422	388,608	388,608
Dongfeng Yueda Kia Motors Co., Ltd.	—	50.00%	133,140	135,343	136,843
Hyundai Powertech Co., Ltd.	24,000,000	50.00%	120,000	149,692	149,314
Dymos Inc.	13,614,811	45.37%	89,438	111,461	117,409
WIA Corporation	8,545,372	39.33%	30,184	173,197	154,925
Haevichi Resort Co., Ltd.	1,240,000	40.00%	8,520	4,106	4,106
Donghee Auto Co., Ltd.	2,106,000	35.10%	10,530	8,572	8,592
Beijing Hyundai Mobis Automotive Parts Co., Ltd.	—	24.11%	22,790	26,443	26,038
TRW Steering Co., Ltd.	357,242	29.00%	8,952	6,329	6,327
Hyundai Card Co., Ltd.(*1)	18,422,142	12.12%	147,960	100,905	119,370
Autoever Systems Co., Ltd.	200,000	20.00%	1,000	9,213	9,213
AMCO Corp.(*1)	1,998,738	19.99%	10,067	44,421	41,194
EUKOR Car Carriers, Inc.(*1)	1,760,000	8.00%	19,565	51,469	45,411
EUKOR Car Carriers Singapore Pte.(*1)	8,000	8.00%	5	5	5
China Millennium Corp.	—	30.30%	27,185	7,050	20,774
Hyundai-Motor Group Ltd.	—	30.00%	9,212	8,731	8,890
Partecs Company, Ltd.	2,480,000	31.00%	12,400	12,172	12,172
Chasan Co., Ltd.(*1)	450,000	15.00%	2,250	(472)	2,250
Kia Motors Australia Pty Ltd.	—	100.00%	21,676	1,036	—
Yanji Kia Motors A/s and Repair	—	100.00%	1,792	1,792	1,792
WIA Automotive Engine (Shandong) Company(*1)	—	18.00%	8,426	5,895	8,426
NGVTEK.com	50,000	24.39%	250	250	250
			₩ 1,887,082	2,424,685	2,483,683

(*1) The Company accounts for its investment in Hyundai Mobis Co., Ltd. and AMCO Corp. under the equity method of accounting due to its significant management control even though the Company's ownership is under 20%. In addition, the Company and its holding company, Hyundai Motor Company, together own more than 20% of EUKOR Car Carriers, Inc., Hyundai Card Co., Ltd., Hyundai Hysco Co., Ltd., Hyundai Autonet Co., Ltd., Chasan Co., Ltd. and WIA Automotive Engine (Shandong) Company, which the Company generally presumed that the investee is under significant influence, thus accounting for its investment under the equity method of accounting.

The Company used unaudited financial statements of the above affiliated companies when applying the equity method of accounting. In the subsequent period, the Company adjusts the difference between the unaudited and audited results. Historically, the differences have been immaterial.

Investments in affiliated companies accounted for using the equity method as of December 31, 2005 are as follows:

						Won (millions)
Company	Shares owned	Percentage of ownership	Cost	Net assets	Balance at December 31, 2005	
Listed:						
Hyundai Mobis Co., Ltd.(*1)	15,558,120	18.15%	₩ 118,993	515,971	522,402	
Hyundai Hysco Co., Ltd.(*1)	11,154,680	13.91%	37,479	139,064	104,489	
Hyundai Steel Company (formerly, INI Steel Co., Ltd.)	18,159,517	21.39%	245,153	598,175	294,943	
Unlisted:						
Kia Motors America, Inc.	1,000,000	100.00%	66,798	(13,939)	—	
Kia Canada, Inc.	5,198	82.53%	58,507	(40,956)	—	
Kia Motors Deutschland GmbH	—	100.00%	53,139	(45,764)	—	
Kia Motors Europe GmbH	—	100.00%	114,171	(31,062)	—	
Kia Tigers Co., Ltd.	400,000	100.00%	20,300	(65)	1,907	
Kia Japan Co., Ltd.	2,000	100.00%	33,197	19,709	19,709	
Kia Motors Slovakia S.r.o.	—	100.00%	235,422	207,095	207,095	
PT. Kia Timor Motors	30,000	30.00%	10,908	—	—	
Dongfeng Yueda Kia Motors Co., Ltd.	—	50.00%	56,148	59,989	63,926	
Hyundai Powertech Co., Ltd.	24,000,000	50.00%	120,000	147,070	146,385	
Dymos Inc.	13,614,811	45.37%	89,438	103,882	113,052	
WIA Corporation	8,545,372	39.33%	30,184	150,612	130,222	
Haevichi Resort Co., Ltd.	1,240,000	40.00%	8,520	7,724	7,724	
Bontec Co., Ltd.	794,420	39.72%	2,581	35,541	34,052	
Donghee Auto Co., Ltd.	2,106,000	35.10%	10,530	8,185	8,225	
Beijing Hyundai Mobis Automotive Parts Co., Ltd.	—	21.04%	13,518	16,696	16,720	
TRW Steering Co., Ltd.	357,242	29.00%	8,952	6,830	7,459	
Hyundai Card Co., Ltd.(*1)	20,592,471	11.31%	96,037	35,211	61,861	
Autoever Systems Co., Ltd.	200,000	20.00%	1,000	7,199	7,199	
AMCO Corp.(*1)	1,998,738	19.99%	10,067	30,279	25,977	
EUKOR Car Carriers, Inc.(*1)	1,760,000	8.00%	19,565	49,064	42,628	
EUKOR Car Carriers Singapore Pte.(*1)	8,000	8.00%	5	5	5	
China Millennium Corp.	—	30.30%	27,185	5,700	23,998	
Hyundai-Motor Group Ltd.	—	30.00%	9,211	8,441	8,652	
Partecs Company, Ltd.	2,480,000	31.00%	12,400	12,400	12,400	
Haevichi Leisure Co., Ltd.	900,000	25.00%	4,500	4,500	4,500	
Kia Motors Australia Pty Ltd.	—	100.00%	825	825	825	
Yanji Kia Motors A/s and Repair	—	100.00%	1,792	1,792	1,792	
NGVTEK.com	50,000	24.39%	250	250	250	
			₩ 1,516,775	2,040,423	1,868,397	

(*1) The Company accounts for its investment in Hyundai Mobis Co., Ltd. and AMCO Corp. under the equity method of accounting due to its significant management control even though the Company's ownership is under 20%. In addition, the Company and its holding company, Hyundai Motor Company, together own more than 20% of EUKOR Car Carriers, Inc., Hyundai Card Co., Ltd. and Hyundai Hysco Co., Ltd. which the Company generally presumed that the investee is under significant influence, thus accounting for its investment under the equity method of accounting.

The Company used unaudited financial statements of the above affiliated companies when applying the equity method of accounting. In the subsequent period, the Company adjusts the difference between the unaudited and audited results. Historically, the differences have been immaterial.

(b) Details of the difference between the acquisition cost and the Company's share of the fair value of investees' identifiable net assets as of December 31, 2006 are as follows:

Won (millions)

Affiliate	Balance at January 1, 2006	Increase	Amortized amount	Balance at December 31, 2006
Dongfeng Yueda Kia Motors Co., Ltd.	₩ 3,937	—	2,437	1,500
Hyundai Mobis Co., Ltd.	9,598	—	3,839	5,759
Kia Tigers Co., Ltd.	1,972	—	1,972	—
Dymos Inc.	9,276	—	3,092	6,184
WIA Corporation	(19,657)	—	(3,276)	(16,381)
Hyundai Autonet Co., Ltd.	(1,355)	—	(1,355)	—
Donghee Auto Co., Ltd.	40	—	20	20
WIA Automotive Engine (Shandong) Company	—	2,531	—	2,531
Beijing Hyundai Mobis Automotive Parts Co., Ltd.	24	(466)	(37)	(405)
TRW Steering Co., Ltd.	629	—	629	—
Chasan Co., Ltd.	—	2,722	—	2,722
Hyundai Hysco Co., Ltd.	(34,511)	—	(3,451)	(31,060)
Hyundai Card Co., Ltd.	26,650	2,796	10,981	18,465
EUKOR Car Carriers, Inc.	(6,436)	—	(378)	(6,058)
Hyundai Steel Company	(303,213)	(45,798)	(26,397)	(322,614)
AMCO Corp.	(4,302)	—	(1,075)	(3,227)
China Millennium Corp.	18,298	—	4,574	13,724
Hyundai-Motor Group Ltd.	211	—	52	159
	₩ (298,839)	(38,215)	(8,373)	(328,681)

Details of the difference between the acquisition cost and the Company's share of the fair value of investee's identifiable net assets as of December 31, 2005 are as follows:

Won (millions)

Affiliate	Balance at January 1, 2005	Increase	Amortized amount	Balance at December 31, 2005
Dongfeng Yueda Kia Motors Co., Ltd.	₩ 6,374	—	2,437	3,937
Hyundai Mobis Co., Ltd.	13,436	—	3,838	9,598
Kia Tigers Co., Ltd.	5,916	—	3,944	1,972
Dymos Inc.	14,382	—	5,106	9,276
WIA Corporation	(22,934)	—	(3,277)	(19,657)
Haevichi Resort Co., Ltd.	424	—	424	—
Bontec Co., Ltd.	(2,711)	—	(1,356)	(1,355)
Donghee Auto Co., Ltd.	60	—	20	40
Beijing Hyundai Mobis Automotive Parts Co., Ltd.	34	—	10	24
TRW Steering Co., Ltd.	1,258	—	629	629
Hyundai Hysco Co., Ltd.	(65,664)	—	(31,153)	(34,511)
Hyundai Card Co., Ltd.	70,482	—	43,832	26,650
EUKOR Car Carriers, Inc.	(6,814)	—	(378)	(6,436)
Hyundai Steel Company	—	(326,811)	(23,598)	(303,213)
AMCO Corp.	—	(7,988)	(3,686)	(4,302)
China Millennium Corp.	—	22,872	4,574	18,298
Hyundai-Motor Group Ltd.	—	264	53	211
	₩ 14,243	(311,663)	1,419	(298,839)

(c) Details of eliminated unrealized gains from inter-company transactions for the year ended December 31, 2006 are as follows:

		Won (millions)
Affiliate	Inventory	
WIA Corporation	₩ 1,891	
Hyundai Hysco Co., Ltd.	148	
Hyundai Powertech Co., Ltd.	378	
Hyundai Steel Company	29	
Dymos Inc.	236	
Hyundai Autonet Co., Ltd.	25	
TRW Steering Co., Ltd.	2	
	₩ 2,709	

Details of eliminated unrealized gains from inter-company transactions for the year ended December 31, 2005 are as follows:

		Won (millions)
Affiliate	Inventory	
WIA Corporation	₩ 732	
Hyundai Hysco Co., Ltd.	64	
Hyundai Powertech Co., Ltd.	685	
Hyundai Mobis Co., Ltd.	3,167	
Hyundai Steel Company	19	
Dymos Inc.	106	
Bontec Co., Ltd.	133	
	₩ 4,906	

(d) Changes in balance of investments in affiliated companies accounted for using the equity method as of December 31, 2006 are as follows:

Won (millions)

Affiliate	Balance at January 1, 2006	Adjustment to				Balance at December 31, 2006
		Additional Investment (Disposal)	Net income (loss)	Capital adjustment	Others(*3)	
Hyundai Mobis Co., Ltd.	₩ 522,402	—	129,874	(2,213)	(23,337)	626,726
Hyundai Hysco Co., Ltd.	104,489	—	4,547	(206)	(2,231)	106,599
Hyundai Steel Company	294,943	—	134,802	8,847	(9,079)	429,513
Hyundai Autonet Co., Ltd.	34,052	—	5,597	1,303	—	40,952
Kia Motors America, Inc.(*1)	—	—	—	—	—	—
Kia Canada, Inc.(*1)	—	—	—	—	—	—
Kia Motors Deutschland GmbH(*1)	—	—	—	—	—	—
Kia Motors Europe GmbH(*1)	—	—	—	—	—	—
Kia Japan Co., Ltd.	19,709	—	78	(1,803)	—	17,984
Kia Motors Slovakia S.r.o.	207,095	216,000	(36,557)	2,070	—	388,608
Dongfeng Yueda Kia Motors Co., Ltd.	63,926	76,991	(302)	(3,772)	—	136,843
Kia Tigers Co., Ltd.(*1)	1,907	—	(1,907)	—	—	—
Hyundai Powertech Co., Ltd.	146,385	—	2,659	270	—	149,314
Dymos Inc.	113,052	—	4,436	(79)	—	117,409
WIA Corporation	130,222	—	26,754	(2,051)	—	154,925
Haevichi Resort Co., Ltd.	7,724	—	(3,618)	—	—	4,106
Donghee Auto Co., Ltd.	8,225	—	367	—	—	8,592
Beijing Hyundai Mobis Automotive Parts Co., Ltd.	16,720	9,272	1,697	(1,651)	—	26,038
TRW Steering Co., Ltd.	7,459	—	(1,132)	—	—	6,327
Hyundai Card Co., Ltd.	61,861	51,923	14,543	(8,957)	—	119,370
Autoever Systems Co., Ltd.	7,199	—	2,014	—	—	9,213
AMCO Corp.	25,977	—	15,458	(241)	—	41,194
EUKOR Car Carriers, Inc.	42,628	—	2,783	—	—	45,411
EUKOR Car Carriers Singapore Pte.(*2)	5	—	—	—	—	5
China Millennium Corp.	23,998	—	(2,911)	(313)	—	20,774
Hyundai-Motor Group Ltd.	8,652	—	517	(279)	—	8,890
Partecs Company, Ltd.	12,400	—	(228)	—	—	12,172
Haevichi Leisure Co., Ltd.(2)	4,500	(4,500)	—	—	—	—
Kia Motors Australia Pty Ltd.(*1)	825	20,851	(21,716)	40	—	—
Yanji Kia Motors A/s and Repair(*2)	1,792	—	—	—	—	1,792
Chasan Co., Ltd.	—	2,250	—	—	—	2,250
WIA Automotive Engine (Shandong) Company	—	8,426	—	—	—	8,426
NGVTEK.com(*2)	250	—	—	—	—	250
	₩ 1,868,397	381,213	277,755	(9,035)	(34,647)	2,483,683

(*1) The cumulative income (losses) and unrealized gains not recognized by the Company due to the suspension of the valuation of equity securities using the equity method as of December 31, 2006 consist of the following:

Won (millions)

Affiliate	Cumulative income (losses)	Unrealized gains
Kia Motors America, Inc.	₩ 73,369	(184,967)
Kia Canada, Inc.	(67,386)	(13,531)
Kia Motors Deutschland GmbH	(111,828)	(41,490)
Kia Motors Europe GmbH	(275,165)	(123,368)
Kia Motors Australia Pty Ltd.	1,036	(13,822)
Kia Tigers Co., Ltd.	(189)	—
	₩ (380,163)	(377,178)

Also, the Company wrote off investments in PT.Kia Timor Motors and Kia Service Philippines Corp. and stopped applying equity method due to the closing of their businesses before prior year.

(*2) Investments in small affiliates with total assets amounting to less than ₩70 billion are recorded at cost, except where the effect of applying the equity method of accounting for investments on the non-consolidated financial statements is material.

Changes in balance of investments in affiliated companies accounted for using the equity method as of December 31, 2005 are as follows:

							Won (millions)
Affiliate	Balance at January 1, 2005	Adjustment to				Balance at December 31, 2005	
		Additional Investment (Disposal)	Net income (loss)	Capital adjustment	Others(*3)		
Hyundai Mobis Co., Ltd.	₩ 427,907	—	124,982	(7,150)	(23,337)	522,402	
Hyundai Hysco Co., Ltd.	165,417	(75,322)	19,004	(4,610)	—	104,489	
Hyundai Steel Company	—	245,153	224,913	(167,859)	(7,264)	294,943	
Bontec Co., Ltd.	21,812	—	12,240	—	—	34,052	
Kia Motors America Inc.(*1)	—	—	—	—	—	—	
Kia Canada, Inc.(*1)	—	—	—	—	—	—	
Kia Motors Deutschland GmbH(*1)	—	—	—	—	—	—	
Kia Motors Europe GmbH(*1)	2,678	2,526	(5,204)	—	—	—	
Kia Japan Co., Ltd.	23,249	—	(47)	(3,493)	—	19,709	
Kia Motors Slovakia S.r.o.	58,756	170,856	(8,607)	(13,910)	—	207,095	
PT.Kia Timor Motors	10,337	—	—	—	(10,337)	—	
Dongfeng Yueda Kia Motors Co., Ltd.	64,794	—	(1,552)	684	—	63,926	
Kia Tigers Co., Ltd.	6,023	—	(4,116)	—	—	1,907	
Hyundai Powertech Co., Ltd.	134,475	—	11,775	135	—	146,385	
Dymos Inc.	105,565	—	7,420	67	—	113,052	
WIA Corporation	92,977	25,279	25,886	(1,233)	(12,687)	130,222	
Haevichi Resort Co., Ltd.	7,126	—	598	—	—	7,724	
Donghee Auto Co., Ltd.	8,303	—	(78)	—	—	8,225	
Beijing Hyundai Mobis Automotive Parts Co., Ltd.	13,239	—	3,570	(89)	—	16,720	
TRW Steering Co., Ltd.	7,330	—	129	—	—	7,459	
Hyundai Card Co., Ltd.	100,092	(50,572)	(3,045)	15,386	—	61,861	
Autoever Systems Co., Ltd.	4,770	—	2,429	—	—	7,199	
AMCO Corp.	—	10,068	15,886	23	—	25,977	
EUKOR Car Carriers, Inc.	33,307	—	9,321	—	—	42,628	
EUKOR Car Carriers Singapore Pte.(*2)	5	—	—	—	—	5	
China Millennium Corp.	27,177	8	(3,645)	458	—	23,998	
Hyundai-Motor Group Ltd.	1,508	7,703	(719)	160	—	8,652	
Partecs Company, Ltd.(*2)	—	12,400	—	—	—	12,400	
Haevichi Leisure Co., Ltd.(*2)	—	4,500	—	—	—	4,500	
Kia Motors Australia Pty Ltd.(*2)	825	—	—	—	—	825	
Yanji Kia Motors A/s and Repair(*2)	1,792	—	—	—	—	1,792	
NGVTEK.com(*2)	250	—	—	—	—	250	
	₩ 1,319,714	352,599	431,140	(181,431)	(53,625)	1,868,397	

(*1) The cumulative losses and unrealized gains not recognized by the Company due to the suspension of the valuation of equity securities using the equity method as of December 31, 2005 consist of the following :

Affiliate	Cumulative income (losses)		Unrealized gains	
			Won (millions)	
Kia Motors America, Inc.	₩	(2,796)		(155,399)
Kia Canada, Inc.		(40,956)		(11,216)
Kia Motors Deutschland GmbH		(45,764)		(41,445)
Kia Motors Europe GmbH		(31,062)		(104,617)
	₩	(120,578)		(312,677)

(*2) Investments in small affiliates with total assets amounting to less than ₩70 billion are recorded at cost, except where the effect of applying the equity method of accounting for investments on the non-consolidated financial statements is material.

(*3) Others are cash dividends declared and/or impairment loss.

(e) Summarized financial information of affiliates as of December 31, 2006 is as follows:

Affiliate	Total assets	Total Liabilities	Sales	Net income (losses)	
				Won (millions)	
Hyundai Mobis Co., Ltd.	₩ 6,211,000	2,671,925	8,168,036		686,750
Hyundai Hysco Co., Ltd.	2,681,482	1,690,676	3,053,009		9,216
Hyundai Steel Company	7,023,617	3,523,717	5,481,241		473,543
Hyundai Autonet Co., Ltd.	649,471	189,562	794,771		48,799
Kia Motors America, Inc.	2,303,320	2,240,177	5,178,120		67,578
Kia Canada, Inc.	150,132	217,518	597,908		(31,261)
Kia Motors Deutschland GmbH	540,502	652,329	881,015		(54,941)
Kia Motors Europe GmbH	1,165,670	1,440,835	1,585,487		(226,003)
Kia Japan Co., Ltd.	18,936	952	819		25
Kia Motors Slovakia S.r.o.	1,117,244	728,636	39,968		(39,012)
Dongfeng Yueda Kia Motors Co., Ltd.	714,355	443,669	1,148,973		4,495
Kia Tigers Co., Ltd.	2,067	2,256	19,222		(73)
Hyundai Powertech Co., Ltd.	901,222	601,838	851,599		5,293
Dymos Inc.	695,139	449,465	1,004,079		17,941
WIA Corporation	1,788,656	1,348,230	3,143,316		52,222
Haevichi Resort Co., Ltd.	212,661	202,395	23,753		(8,632)
Chasan Co., Ltd.	101,811	104,956	—		(1,627)
Donghee Auto Co., Ltd.	89,793	65,370	85,562		1,069
WIA Automotive Engine (Shandong) Company	47,744	14,994	—		—
Beijing Hyundai Mobis Automotive Parts Co., Ltd.	195,345	85,662	223,824		3,769
TRW Steering Co., Ltd.	72,527	50,704	132,054		(1,086)
Hyundai Card Co., Ltd.	3,403,768	2,571,270	918,765		282,813
Autoever Systems Co., Ltd.	156,412	110,350	391,893		10,238
AMCO Corp.	478,045	255,802	976,301		68,640
EUKOR Car Carriers, Inc.	1,483,918	840,556	1,543,111		67,991
China Millennium Corp.	82,024	58,756	16,654		5,228
Hyundai-Motor Group Ltd.	116,200	87,096	135,274		1,732
Partecs Company, Ltd.	79,442	40,178	4,316		(679)
Kia Motors Australia Pty Ltd.	52,327	51,291	241,946		(18,117)
	₩ 32,534,830	20,741,165	36,641,016		1,425,911

(f) The market price of equity investments in listed affiliated companies as of December 31, 2006 and 2005 are as follows:

Affiliate	Won (millions)	
	2006	2005
Hyundai Mobis Co., Ltd.	₩ 1,336,443	1,437,570
Hyundai Hysco Co., Ltd.	106,081	137,760
Hyundai Steel Company	612,884	380,442
Hyundai Autonet Co., Ltd.	188,554	305,652
	₩ 2,243,962	2,261,424

(8) Transactions and Balances with Related Companies

(a) Details of parent and subsidiary relationships as of December 31, 2006 are as follows:

Parent	Control relationship
Hyundai Motor Company	Ultimate controlling party
Controlled subsidiary (*)	Location
Kia Motors America, Inc. (KMA)	USA
Kia Canada, Inc. (KCI)	Canada
Kia Motors Deutschland GmbH (KMD)	Germany
Kia Motors Polska Sp.z.o.o (KMP)	Poland
Kia Motors Slovakia S.r.o. (KMS)	Slovakia
Kia Motors Sales Slovensko S.r.o (KMSs)	Slovakia
Kia Motors Europe GmbH (KME)	Germany
Kia Motors Belgium N.V (KMBI)	Belgium
Kia Motors Czech S.r.o (KMCz)	Czech
Kia Motors (UK) Ltd. (KMUK)	England
Kia Motors Austria GmbH (KMAs)	Austria
Kia Motors Hungary K.f.t (KMH)	Hungary
Kia Motors Iberia S.L (KMib)	Spain
Kia Motors Sweden AB (KMSw)	Sweden
Kia Motors France SAS (KMF)	France
Kia Japan Co., Ltd (KJC)	Japan
Dongfeng Yueda Kia Motors Co., Ltd. (DYK)	China
Haevichi Resort Co., Ltd.	Korea
Kia Tigers Co., Ltd.	Korea
Yanji Kia Motors A/s and Repair	China
Kia Motors Australia Pty Ltd. (KMAu)	Australia
Kia Motors New Zealand (KMNZ)	New Zealand

(*) Controlled subsidiaries represent majority-owned entities by either the Company or a controlled subsidiary and other entities where the Company and/or its controlled subsidiaries own more than 30% of total outstanding common stock and are the largest shareholder.

(b) Significant transactions which occurred in the normal course of business with related companies for the year ended December 31, 2006 are summarized as follows:

Related Company	Won (millions)			
	Sales	Other income	Purchase	Other expenses
Hyundai Motor Company	₩ 608,592	43,598	587,691	399,805
Kia Motors America, Inc.	4,124,896	15,978	—	477,984
Kia Canada, Inc.	424,924	2,744	—	18,078
Kia Motors Europe GmbH	3,258,680	24,956	—	103,773
Kia Motors Polska Sp.z.o.o	57,565	632	—	—
Kia Motors Australia Pty Ltd.	217,046	5,439	—	4,245
Kia Motors Slovakia S.r.o.	42,225	81,491	—	—
Dongfeng Yueda Kia Motors Co., Ltd.	235,748	14,515	—	303
Hyundai Mobis Co., Ltd.	27,436	13,921	1,848,636	1,430
Hyundai Hysco Co., Ltd.	104	11	42,452	—
Hyundai Powertech Co., Ltd.	170	1,302	355,925	345
Dymos Inc.	1,422	296	141,344	—
Hyundai Steel Company	—	177	2,005	—
WIA Corporation	3,847	4,434	1,149,274	251
Autoever Systems Co., Ltd.	350	3,704	3,986	42,680
AMCO Corp.	377	466	58,018	16,878
Donghee Auto Co., Ltd.	20	551	85,562	5
EUKOR Car Carriers, Inc.	—	—	—	435,692
TRW Steering Co., Ltd.	9	—	2,396	—
Hyundai Autonet Co., Ltd.	219	34	31,988	301
Hyundai-Motor Group Ltd.	36,778	—	—	—
Hyundai Capital Service, Inc.	114,902	7,844	—	27,273
Hyundai Motor America	531,123	—	—	1,070
Hyundai Auto Canada	63,286	—	—	203
KEFICO Corporation	167	14	86,401	24
METIA Corporation	5,411	—	8,164	3,874
AIA Corporation	956	—	49,683	44
Others	825	683	14,714	38,979
Total	₩ 9,757,078	222,790	4,468,239	1,573,237

Significant transactions which occurred in the normal course of business with related companies for the year ended December 31, 2005 are summarized as follows:

Related Company	Won (millions)			
	Sales	Other income	Purchase	Other expenses
Hyundai Motor Company	₩ 399,232	48,923	898,060	83,936
Kia Motors America, Inc.	3,929,627	—	—	189,801
Kia Canada, Inc.	367,698	—	—	18,971
Kia Motors Europe GmbH	2,572,564	—	—	58,909
Kia Motors Polska Sp.z.o.o	63,135	—	—	1,930
Dongfeng Yueda Kia Motors Co., Ltd.	113,295	—	—	—
Hyundai Mobis Co., Ltd.	31,030	15,568	1,903,827	10,748
Hyundai Hysco Co., Ltd.	23	15	53,886	—
Hyundai Capital Service, Inc.	52,193	95	—	108
Hyundai Powertech Co., Ltd.	516	1,584	298,993	1,311
Dymos Inc.	1,555	119	133,579	545
WIA Corporation	3,160	706	972,151	2,662
Bontec Co., Ltd.	—	11	27,044	1,150
Autoever Systems Co., Ltd.	20	3,115	8,408	39,263
KEFICO Corporation	26	15	87,408	3
AMCO Corp.	110	490	102,489	71,430
GLOVIS Co., Ltd.	50,236	4,733	50,634	125,691
WISCO Co., Ltd.	27	1	10,958	—
Donghee Auto Co., Ltd.	16	3	85,297	—
EUKOR Car Carriers, Inc.	33	—	—	437,366
Rotem Company	147	20	48,719	—
BNG Steel Co., Ltd.	—	—	15,801	—
Others	26,910	333	10,273	25,891
Total	₩ 7,611,553	75,731	4,707,527	1,069,715

(c) Account balances with related companies as of December 31, 2006 are as follows:

Won (millions)

Related Company	2006			
	Receivables		Payables	
	Accounts receivable - trade	Other receivables	Accounts payable - trade	Other payables
Hyundai Motor Company	₩ 81,640	6,801	108,231	97,760
Kia Motors America, Inc.	74,913	26,506	—	152,035
Kia Canada, Inc.	13,168	3,897	—	1,682
Kia Motors Europe GmbH	148,258	53,402	—	6,190
Kia Motors Polska Sp.z.o.o	2,790	2,092	—	531
Kia Motors Australia Pty Ltd.	10,603	4,074	—	574
Kia Motors Slovakia S.r.o.	8,454	2,947	—	—
Dongfeng Yueda Kia Motors Co., Ltd.	52,891	2,444	—	—
Hyundai Mobis Co., Ltd.	383	15,356	216,666	1,314
Hyundai Hysco Co., Ltd.	—	—	11,181	93
Hyundai Powertech Co., Ltd.	—	115	65,186	1,136
Dymos Inc.	—	250	26,159	201
Hyundai Steel Company	50	12	—	—
WIA Corporation	—	3,360	188,806	9,959
Autoever Systems Co., Ltd.	—	320	5,323	6,237
AMCO Corp.	—	—	22,258	8,951
Donghee Auto Co., Ltd.	—	—	9,359	117
EUKOR Car Carriers, Inc.	—	—	—	45,417
TRW Steering Co., Ltd.	—	—	575	—
Hyundai Autonet Co., Ltd.	—	4	11,438	568
Hyundai-Motor Group Ltd.	5,818	—	—	—
Hyundai Capital Service, Inc.	—	—	—	537
Hyundai Motor America	172	433	—	345
Hyundai Auto Canada	—	—	—	27
KEFICO Corporation	—	1	13,131	91
METIA Corporation	—	1,422	2,410	2,562
AIA Corporation	—	—	15,685	237
Others	210	61	9,305	4,266
	₩ 399,350	123,497	705,713	340,830

Allowance for doubtful accounts and bad debt expense related to account balances with related parties as of December 31, 2006 are ₩4,346 million and ₩1,985 million, respectively.

Account balances with related companies as of December 31, 2005 are as follows:

Related Company	2005				Won (millions)
	Receivables		Payables		
	Accounts receivable - trade	Other receivables	Accounts payable - trade	Other payables	
Hyundai Motor Company	₩ 2,790	41,309	123,564	48,861	
Hyundai Mobis Co., Ltd.	—	13	233,178	5,954	
Hyundai Hysco Co., Ltd.	—	—	8,940	99	
Hyundai Powertech Co., Ltd.	—	145	57,374	1,500	
Dymos Inc.	275	529	10,772	421	
WIA Corporation	—	—	167,796	5,293	
Hyundai Steel Company	67	17	1,414	—	
Bontec Co., Ltd.	—	2	1,481	115	
Autoever Systems Co., Ltd.	—	99	5,932	5,950	
KEFICO Corporation	—	3	10,785	155	
AMCO Corp.	—	—	42,317	49,786	
GLOVIS Co., Ltd.	318	39	5,897	19,810	
WISCO Co., Ltd.	—	1,100	2,552	41	
Innocean Corporation	—	—	13,807	15,539	
Donghee Auto Co., Ltd.	—	—	7,767	83	
EUKOR Car Carriers, Inc.	—	—	—	39,583	
Kia Motors America, Inc.	52,739	—	—	14,923	
Kia Canada, Inc.	14,444	533	—	1,510	
Kia Motors Europe GmbH	45,518	29,602	—	6,759	
Kia Motors Polska Sp.z.o.o	2,390	1,170	—	—	
Dongfeng Yueda Kia Motors Co., Ltd.	28,525	4,711	—	—	
Others	4,385	5,360	4,422	367	
	₩ 151,451	84,632	697,998	216,749	

(d) Key management personnel compensation in total and for each of the following categories for the year ended December 31, 2006 are as follows:

Related party		Won (millions)
Short-term employee benefits	₩ 37,740	
Post-employment benefits	24,439	
	₩ 62,179	

(e) The Company has provided guarantees for related companies as of December 31, 2006 and 2005 are as follows:

Related party	Type of borrowings	Foreign currency (in thousands)			
		2006		2005	
Kia Motors Slovakia S.r.o.	Plant loan and general loan	EUR	347,069	EUR	90,812
Kia Motors (UK) Ltd.	Deferment from customs duties	GBP	13,200	GBP	9,970
Kia Motors Europe GmbH	Guarantee of borrowings related	EUR	6,180	EUR	—
	to new construction of office building	EUR	45,000	EUR	27,000
Kia Motors Australia Pty Ltd.	Leasehold deposit for office building	AUD	—	AUD	800

(f) Assets pledged as collateral for related companies as of December 31, 2006 and 2005 are as follows:

Won (millions)

Assets	Related party	Book value		Lender
		2006	2005	
Investments in affiliates	EUKOR Car Carriers, Inc.	₩ 45,411	42,628	The Korea Development Bank
	EUKOR Car Carriers Singapore, Pte.	5	5	
		₩ 45,416	42,633	

(9) Property, Plant and Equipment

(a) Changes in property, plant and equipment for the year ended December 31, 2006 are as follows:

Won (millions)

	Book value as of January 1, 2006	Acquisition	Disposals	Depreciation	Other	Book value as of December 31, 2006
Land	₩ 1,363,519	—	(20,205)	—	222	1,343,536
Buildings	963,045	—	(2,492)	(39,992)	122,972	1,043,533
Structures	220,982	—	(1,170)	(19,123)	16,688	217,377
Machinery and equipment	1,631,717	—	(37,407)	(225,633)	472,450	1,841,127
Dies, molds and tools	383,076	—	(2,781)	(133,398)	91,563	338,460
Vehicles	35,751	—	(5,988)	(12,340)	22,884	40,307
Other equipment	76,157	—	(793)	(29,663)	19,519	65,220
Construction-in- Progress	558,316	528,763	(743)	—	(746,298)	340,038
	₩ 5,232,563	528,763	(71,579)	(460,149)	—	5,229,598

Changes in property, plant and equipment for the year ended December 31, 2005 are as follows:

Won (millions)

	Book value as of January 1, 2005	Acquisition	Disposals	Depreciation	Other	Book value as of December 31, 2005
Land	₩ 1,366,261	—	(3,805)	—	1,063	1,363,519
Buildings	899,753	—	(3,315)	(35,375)	101,982	963,045
Structures	218,764	—	(3,807)	(18,379)	24,404	220,982
Machinery and equipment	1,536,942	—	(99,868)	(222,630)	417,273	1,631,717
Dies, molds and tools	348,779	—	(3,291)	(125,305)	162,893	383,076
Vehicles	35,341	—	(4,240)	(11,259)	15,909	35,751
Other equipment	87,259	—	(281)	(31,308)	20,487	76,157
Construction-in- Progress	481,809	820,518	—	—	(744,011)	558,316
	₩ 4,974,908	820,518	(118,607)	(444,256)	—	5,232,563

(b) Insurance

As of December 31, 2006, inventories, buildings, structures, machinery and equipment and dies, molds and tools were insured against fire damage up to ₩4,170,269 million. In addition, the Company carries general insurance for vehicles and workers' compensation and casualty insurance for employees. Also, as of December 31, 2006, the Company maintains insurance to cover potential product liabilities up to US\$85,000 thousand in North America and Europe and ₩1,000 million in Korea.

(c) The officially declared value of land at December 31, 2006, as announced by the Minister of Construction and Transportation, is as follows:

	Won (millions)	
	Book value	Declared value
Head office	₩ 282,582	342,061
Sohari factory	306,234	509,932
Hwasung factory	269,511	331,799
Kwangju factory	346,271	300,192
Others	138,938	160,280
	₩ 1,343,536	1,644,264

The officially declared value, which is used for government purposes, is not intended to represent fair value.

(10) Intangible Assets

(a) Changes in intangible assets for the year ended December 31, 2006 are as follows:

	Won (millions)			
	Development costs	Industrial property rights	Right of utilization	Total
Net balance at beginning of year	₩ 749,639	6,033	7,373	763,045
Increases	257,519	1,556	—	259,075
Amortization	(246,485)	(1,219)	(1,866)	(249,570)
Net balance at end of year	₩ 760,673	6,370	5,507	772,550

Changes in intangible assets for the year ended December 31, 2005 are as follows:

	Won (millions)			
	Development costs	Industrial property rights	Right of utilization	Total
Net balance at beginning of year	₩ 596,171	5,834	9,239	611,244
Increases	319,306	1,265	—	320,571
Amortization	(165,627)	(1,066)	(1,866)	(168,559)
Other changes	(211)	—	—	(211)
Net balance at end of year	₩ 749,639	6,033	7,373	763,045

(b) Research and development costs incurred for the years ended December 31, 2006 and 2005 were ₩586,112 million and ₩565,743 million, respectively.

(11) Other Assets

Other assets as of December 31, 2006 and 2005 are summarized as follows:

	Won (millions)	
	2006	2005
Long-term financial instruments	₩ 32	15,900
Long-term accounts receivable - trade, less discount on present value of ₩861 in 2006 and ₩1,212 in 2005	5,785	7,609
Long-term accounts receivable - other, less allowance for doubtful accounts of ₩24,989 in 2006 and ₩3,345 in 2005	29,495	47,886
Guarantee deposits	176,414	150,258
	₩ 211,726	221,653

(12) Pledged Assets and Guarantees

(a) The following assets were pledged as collateral for the Company's long-term debt and others as of December 31, 2006:

Assets	Lender	Type of Borrowings	Won (millions), USD (thousands)	
			Borrowing amount	Collateralized amount
Available-for-sale securities	Korean Defense Industry Association	Performance guaranty	₩ —	320
Land and buildings	The Korea Development Bank, etc.	Long-term debt	USD 82	—
			₩ 13,810	773,644
Land and buildings	Woori Bank	Vocational training and developmet fund	—	1,250
			USD 82	—
			₩ 13,810	775,214

(13) Other Current Liabilities

Other current liabilities as of December 31, 2006 and 2005 are as follows:

	Won (millions)	
	2006	2005
Advances from customers	₩ 23,598	26,061
Unearned income	66,357	73
Accrued expenses	181,512	47,333
Accrued dividends	26	20
	₩ 271,493	73,487

(14) Short-term Borrowings

Short-term borrowings as of December 31, 2006 and 2005 amounted to ₩659,979 million and ₩312,691 million, respectively, and consist of bank loans and commercial paper with annual interest rate ranging from 0.58% to 5.85%.

(15) Long-term Debt

(a) Long-term debt as of December 31, 2006 and 2005 are summarized as follows:

		Won (millions)	
Lender	Annual interest rate	2006	2005
Local currency borrowings:			
The Korea Development Bank(*2)	(*1)	₩ —	67,178
Korea Development Financing Corp.(*2)	(*1)	9,847	14,767
Woori Bank(*2)	(*1)	1,123	1,678
Nara Banking Corporation(*2)	(*1)	7,389	11,082
Prudential and Finance Corporation(*2)	(*1)	5,609	8,410
Kookmin Bank, etc.	1.0%~5.5%	13,680	16,514
Others(*2)	(*1)	22,076	33,606
		59,724	153,235
Foreign currency borrowings:			
The Korea Development Bank(*2)	(*1)	—	18,843
Deutsche Bank(*2)	(*1)	10,140	16,575
Woori Bank(*2)	(*1)	146	239
First Citicorp Leasing Inc.(*2)	(*1)	2,783	4,549
Korea Lease Financing Co., Ltd.(*2)	(*1)	1,959	4,270
CITI Corp.(*2)	(*1)	2,054	3,358
Korea Development Financing Corp(*2)	(*1)	1,078	1,762
CNH Capital Co., Ltd.(*2)	(*1)	981	1,604
ABN-AMRO	EURO Libor+1.1%	61,112	60,008
Deutsche Bank	EURO Libor+1.1%	36,667	36,005
Korea Eximbank	EURO Libor+1.1%	339,143	173,742
Societe Generale	EURO Libor+1.1%	146,669	144,018
Others(*2)	(*1)	3,155	4,092
		605,887	469,065
Debentures:			
Debentures	3.73%~9.375%	1,619,264	1,115,160
Less discounts		(4,705)	(4,111)
		1,614,559	1,111,049
Less current portion of long-term debt			
		(502,127)	(258,565)
		₩ 1,778,043	1,474,784

(*1) Earning rate of the three-year unwarranted corporate bond.

(*2) The Company began the corporate reorganization process under the Company Reorganization Act on April 15, 1998. The Company was released from its debts including liabilities on guarantees totaling ₩5,482,181 million, and the repayment schedule of the principal amount of the reorganized debts amounting to ₩1,518,942 million was readjusted to be repaid on an installment basis between 2002 and 2008. The Company pays interest on the debt principal starting from the beginning of the reorganization process on a quarterly basis at the earning rate of the three-year unwarranted corporate bond. Furthermore, the Company provided blank notes and checks as collateral for these reorganized debts.

(b) Aggregate maturities of the Company's long-term debt as of December 31, 2006 are as follows:

		Won (millions)			
December 31		Local currency borrowings	Foreign currency borrowings	Debentures	Total
2007	₩	25,635	290,794	185,920	502,349
2008		25,108	11,151	366,672	402,931
2009		731	—	350,000	350,731
2010		784	244,448	366,672	611,904
Thereafter		7,466	59,494	350,000	416,960
	₩	59,724	605,887	1,619,264	2,284,875

(16) Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2006 and 2005 are summarized as follows:

Assets	2006			2005		
		Foreign currency (in thousands)	Won equivalent (millions)		Foreign currency (in thousands)	Won equivalent (millions)
Cash and cash equivalents	USD	21,758	₩ 20,225	USD	58,655	₩ 59,418
	EUR	12,076	14,760	EUR	67,825	81,401
	CAD	—	—	CAD	6,890	6,003
Accounts and notes receivable - trade	USD	527,205	490,090	USD	311,385	315,433
	EUR	200,282	244,793	EUR	81,860	98,244
	AED	35,093	8,882	AED	—	—
	AUD	14,701	10,798	AUD	265	197
	CAD	16,436	13,168	CAD	16,577	14,444
	GBP	3,768	6,874	GBP	11,730	20,471
Accounts receivable - other	USD	7,491	6,964	USD	9,543	9,667
	EUR	1,937	2,367	EUR	4,486	5,384
	AUD	1,822	1,338	AUD	—	—
	GBP	8	14	GBP	8	14
Guarantee deposits	USD	374	348	USD	256	259
			₩ 820,621			₩ 610,935

Continued on next page

Liabilities	2006		2005	
	Foreign currency (in thousands)	Won equivalent (millions)	Foreign currency (in thousands)	Won equivalent (millions)
Accounts and notes payable - trade	USD 18,746	₩ 17,426	USD 23,357	₩ 23,661
	JPY 1,395,412	10,910	JPY 1,097,930	9,443
	EUR 5,802	7,092	EUR 9,222	11,068
	AUD 1,520	1,116	AUD 1,976	1,470
	GBP 211	385	GBP 42	73
	SEK 31	4	SEK —	—
	CHF 95	72	CHF 1	1
Accounts and notes payable - other	USD 48,570	45,151	USD 50,169	50,821
	JPY 1,842,382	14,404	JPY 1,295,390	11,141
	EUR 18,396	22,484	EUR 19,188	23,029
	GBP 15	27	GBP 106	184
	DKK 1	—	DKK —	—
	CHF 1	1	CHF 199	154
	SEK 1	—	SEK —	—
	CAD —	—	CAD 1,733	1,510
	AUD 10	7	AUD 60	45
Accrued expenses	JPY 39,667	310	JPY 40,079	343
	USD 150,000	139,440	USD —	—
Short-term borrowings	JPY 7,254,646	56,719	JPY 7,725,273	66,440
	USD 100,322	93,260	USD 95,015	96,250
Long-term debt (including current portion)	USD 287,358	267,128	USD 443,635	449,402
	EUR 1,028,800	1,257,441	EUR 944,767	1,133,862
	JPY 74,496	582	JPY 111,744	961
		₩ 1,933,959		₩1,879,858

(17) Provision for Warranties

Changes in provision for warranties for the years ended December 31, 2006 and 2005 are summarized as follows:

	2006		2005	
	Won (millions)		Won (millions)	
Net balance at beginning of year	₩	724,152	₩	764,308
Increase		246,556		245,440
Decrease		(267,219)		(285,596)
Net balance at end of year	₩	703,489	₩	724,152

(18) Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2006 and 2005 are summarized as follows:

Won (millions)

	2006	2005
Net balance at beginning of year	₩ 1,522,784	1,437,076
Provision for retirement and severance benefits	357,508	270,082
Transfer-in from affiliate companies	10	891
Payments	(472,676)	(185,265)
Estimated retirement and severance benefits accrual at end of year	1,407,626	1,522,784
Transfer to National Pension Fund	(24,788)	(34,418)
Deposit for severance benefit insurance	(851,383)	(934,041)
Net balance at end of year	₩ 531,455	554,325

The Company maintains an employees' severance benefit insurance arrangement with the Samsung Life Insurance Co., Ltd. and others. Under this arrangement, the Company has made a deposit in the amount equal to 60.48% and 61.34% of the reserve balances of retirement and severance benefits as of December 31, 2006 and 2005, respectively. This deposit is to be used to guarantee the required payments to the retirees and accounted for as a reduction of the reserve balances.

(19) Commitments and Contingencies

(a) The Company has provided guarantees of ₩14,221 million to the banks which provide customer financing for long-term installment sales as of December 31, 2006. These guarantees are all covered by insurance contracts for the customer and the Company as contractor and beneficiary, respectively.

(b) As of December 31, 2006, 34 blank checks, 96 blank promissory notes and two promissory notes totaling ₩1,820 million have been provided as collateral to Standard Chartered First Bank Korea Ltd. and others for the Company's certain debts and agreements.

(c) The Company is involved in 34 lawsuits and claims for alleged damages aggregating ₩4,584 million and ₩7,884 million as of December 31, 2006 and 2005, respectively, which arose in the ordinary course of business. Management is of the opinion that the foregoing lawsuits and claims will not have a material adverse effect on the Company's financial position, operating results or cash flows.

(d) The Company is involved in lawsuits, in Brazilian court, pertaining to the disputes with the Brazilian shareholders of Asia Motors Do Brasil S.A. (AMB) and AMB, which was established as a joint venture by Asia Motors with a Brazilian investor. In 2002, the Company brought the case to the International Court of Arbitration to settle the disputes pursuant to the terms of contract signed at the time of the inception of the joint venture, which stipulates that in case the business has been adversely affected by a party's failure to comply with contract terms and other reasons, the matter should be taken before the International Court of Arbitration for settlement and parties shall be held accountable according to the results. The case was decided in favour of the Company in the International Court of Arbitration on July 22, 2004. In addition, the Company, a shareholder of AMB, has already written off this investment of ₩14,057 million. Although the outcome of these matters is not currently predictable, management believes that the resolution of these matters will not have a material adverse effect on the operations or financial position of the Company.

(e) As of December 31, 2006, the Company has an ongoing litigation for certain executives regarding the Company's certain past transactions of fund. It is impossible for the board of directors of the Company to estimate the possible outflow of resources as a result of this lawsuit and the possible loss that may be sustained from this lawsuit in proper way. However, it is assumed that there will be no substantial impact on the Company's financial statements. Thus, the financial statements do not include any adjustments that might arise from the outcome of this uncertainty.

In addition, the Company is under investigation from the Korean Fair Trade Commission about a series of management activities. It is impossible for the board of directors of the Company to estimate the possible outflow of resources as a result of this investigation and the possible loss that may be sustained from this lawsuit

in proper way. However, it is assumed that there will be no substantial effect on the Company's financial statements. Therefore, the financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(f) The Company entered into an agreement with its European sales subsidiaries and agents that they are responsible for the projected costs for dismantling and recycling vehicles sold in corresponding countries to comply with European Parliamentary directive regarding End-of-Life vehicles (ELV).

(20) Derivative Instruments

The Company has entered into range forwards to hedge the foreign currency exposure to variability in the functional-currency-equivalent cash flows associated with a fluctuation risk of foreign exchange rates. Range forwards as of December 31, 2006 are as follows:

Bank	Contract amount	Contract date	Maturity date	Won (millions)
				Fair value
CALYON Financial	EUR 20,000,000	2006.12.01	2007.02.07~2007.03.07	111

The Company's estimated period of its exposure to the variability of cash flows related to the above contracts is from February 2007 to March 2007. The contract is recorded at fair value with the unrealized gains recorded in the statements of income. Unrealized gains are ₩111 million and ₩3,050 million as of December 31, 2006 and 2005, respectively.

Under the derivative instruments, the Company recognized a derivatives transaction gain and loss of ₩4,695 million and ₩7,179 million, respectively.

(21) Stockholders' Equity

(a) Transactions in stockholders' equity for the years ended December 31, 2006 and 2005 are summarized as follows:

Won (millions)

	Common stock	Capital surplus	Retained earnings	Capital adjustments	Total
Balance at January 1, 2005	₩ 1,848,652	1,701,956	1,320,423	93,393	4,964,424
Net income	—	—	680,904	—	680,904
Dividends paid	—	—	(121,174)	—	(121,174)
Exercise of stock options	—	1,055	—	628	1,683
Recognition of compensation costs	—	—	—	99	99
Cancellation of stock options	—	—	—	(398)	(398)
Unrealized gain on valuation of long-term investment securities	—	—	—	(90,865)	(90,865)
Loss on valuation of investments in affiliates using equity method, net	—	—	—	(182,305)	(182,305)
Balance at December 31, 2005	1,848,652	1,703,011	1,880,153	(179,448)	5,252,368
Net income	—	—	39,337	—	39,337
Dividends paid	—	—	(86,629)	—	(86,629)
Cancellation of stock options	—	128	—	(128)	—
Exercise of stock options	—	705	—	192	897
Unrealized gain on valuation of long-term investment securities	—	—	—	(5,098)	(5,098)
Loss on valuation of investments in affiliates using equity method, net	—	—	—	46,881	46,881
Balance at December 31, 2006	₩ 1,848,652	1,703,844	1,832,861	(137,601)	5,247,756

(b) Capital stock as of December 31, 2006 is summarized as follows:

Authorized	Issued	Outstanding	Par value	Won (millions)
820,000,000 shares	347,230,455 shares	346,628,405 shares	₩ 5,000	₩ 1,848,652

Under the court-approved reorganization plan, on March 30, 1999, ₩5,482,181 million of the Company's debt was forgiven, including its guaranteed obligations, and an additional ₩1,799,999 million of its liabilities was converted into capital stock, for which 119,999,932 new shares were issued at ₩15,000 per share.

On December 7, 2000, ₩714 million of creditor's claim in dispute was additionally determined by the court as the Company's reorganization claim and it was converted into capital stock, for which 142,953 new shares were issued.

In accordance with the takeover contract with the Hyundai Motor Company, representing the Hyundai Motor Consortium, effective December 1, 1998, the Company issued new common stock of 172,431,118 shares amounting to ₩938,656 million and the Hyundai Motor Consortium acquired 153,000,000 shares amounting to ₩841,500 million for a total ownership of 51 percent as of March 30, 1999.

Financial institutions, whose loans to the Company had been forgiven or converted into the Company's common stock, and Hyundai Motor Consortium were granted rights to subscribe to the registered non-voting preferred stock with a par value of ₩5,000. On December 28, 1998, the financial institutions acquired rights equal to 10 percent of the forgiven debt and liabilities converted into new capital stock. Also, on December 28, 1998, the Hyundai Motor Consortium acquired rights to the extent that the Consortium shall own up to 51 percent of all the additional preferred shares to be issued. These pre-emptive rights can be exercised at once or several times in the fifth or tenth year from December 28, 1999, the date the court approved the reorganization plan and the Company shall pay a dividend equal to at least two percent for the preferred shares to be issued for the exercise of the rights. In 2003, the fifth year from the December 28, 1999, no pre-emptive right was exercised. In addition, the Asia Motors-invested financial institutions and Hyundai Motor Consortium were granted pre-emptive rights under the same conditions as described above.

The Company completed stock retirement of 10 million shares of treasury stock on July 2, 2003, which had been acquired for such retirement purposes based on the decision of the Board of Directors on May 9, 2003. Also, the Company completed stock retirement of 12.5 million shares of treasury stock on May 28, 2004, which had been acquired for ₩136,701 million for such retirement purposes based on the decision of the Board of Directors on March 19, 2004 and remaining shares of common stock are 347,230,455 shares. The remaining shares of common stock are reduced from 359,730,455 shares to 347,230,455 shares. Due to these stock retirements, the aggregate par value of issued shares of ₩1,736,152 million differs from the capital stock amount.

As of December 31, 2006, 602,050 shares of treasury stock (0.17% of total stock) lost their voting rights due to clause 2 of Article 369 of the Korea, Commercial Code. In addition, 4,368,690 shares of common stock (1.26% of total shares) owned by Hyundai Capital Co. also lost their voting rights under Article 11 of the Monopoly Regulation and Fair Trade Act of Korea.

(22) Capital Surplus

Capital surplus as of December 31, 2006 and 2005 are summarized as follows:

	Won (millions)	
	2006	2005
Paid-in capital in excess of par value	₩ 1,580,065	1,580,065
Gain on capital reduction	119,859	119,859
Other	3,920	3,087
	₩ 1,703,844	1,703,011

(23) Retained Earnings

Retained earnings as of December 31, 2006 and 2005 are summarized as follows:

	Won (millions)	
	2006	2005
Legal reserve	₩ 42,800	34,100
Reserve for technology development	1,750,700	1,262,900
Unappropriated retained earnings	39,361	583,153
	₩ 1,832,861	1,880,153

(a) Legal reserve

The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or transferred to common stock in connection with a free issue of shares.

(b) Reserve for technology development

The Company's appropriated retained earnings for technology development is a voluntary reserve which may be used for purposes other than that for which it was established, under a resolution of a general shareholders' meeting.

(24) Capital Adjustments

Details of capital adjustments as of December 31, 2006 and 2005 are as follows:

		2006	2005
		Won (millions)	
Treasury stock (note 21)	₩	(3,603)	(4,272)
Stock options (note 29)		963	1,568
Unrealized gain on valuation of long-term investment securities		5,620	10,718
Loss on valuation of investments in affiliates using equity method, net		(140,581)	(187,462)
	₩	(137,601)	(179,448)

(25) Selling and Administrative Expenses

Details of selling and administrative expenses for the years ended December 31, 2006 and 2005 are as follows:

		2006	2005
		Won (millions)	
Salaries	₩	389,481	364,491
Provision for retirement and severance benefits		72,393	69,135
Other employee benefits		50,838	50,125
Sales promotion		288,235	220,712
Travel		15,888	12,442
Communications		8,002	8,203
Utilities		7,450	7,398
Taxes and dues		6,933	6,375
Rent		18,693	19,294
Depreciation		48,387	51,982
Amortization of intangible assets		1,119	1,066
Repairs and maintenance		4,787	4,656
Advertising		97,367	82,505
Freight		34,705	31,763
Supplies and stationery		2,369	2,327
Commissions and fees		105,346	98,163
Education and training		4,084	4,073
Ordinary research and development		190,568	135,389
Overseas marketing		406,776	159,442
Export expenses		551,283	541,352
Warranty		325,111	316,098
Bad debt expenses		2,924	—
Miscellaneous		4,513	5,722
	₩	2,637,252	2,192,713

(26) Income Taxes

(a) The Company is subject to a number of income taxes on taxable income at the following normal tax rates:

Taxable income	Prior to 2005	Thereafter
Up to ₩100 million	16.5%	14.3%
Over ₩100 million	9.7%	27.5%

In December 2003, the Korean government reduced the corporate income tax rate (including resident surtax) beginning in 2005. Specifically, effective January 1, 2005, the income tax rate was reduced from 29.7% to 27.5%. The components of income tax expense for the years ended December 31, 2006 and 2005 are summarized as follows:

		2006	2005
		Won (millions)	
Current	₩	12,274	25,262
Deferred		21,602	(16,761)
	₩	33,876	8,501

(b) The provision for income taxes calculated using the normal tax rates differs from the actual provision for the years ended December 31, 2006 for the following reasons:

	Won (millions)	
Provision for income taxes at normal tax rates	₩	20,120
Tax effects of permanent differences, primarily entertainment expenses in excess of tax limit		286
Investment tax credit		(78,039)
Adjustment of prior year tax return		739
Decrease in deferred income tax liabilities resulting from equity in income of affiliates (*)		90,770
Actual provision for income taxes	₩	33,876

(*) Under the Corporate Income Tax Act Article 18 paragraph 2, a certain portion of dividend income is not taxable. Therefore, certain portions of equity in net income of affiliates were considered permanent differences in the calculation of deferred tax assets (liabilities). Effective January 1, 2005, non-taxable dividend income is excluded from equity in income of affiliates in the calculation of deferred income tax liabilities resulting from equity in income of affiliates.

(c) The effective tax rates, after adjustments for certain differences between amounts reported for financial accounting and income tax purposes, were approximately 46.3% and 1.2% in 2006 and 2005, respectively.

(d) The tax effects of temporary differences that result in significant portions of deferred tax assets and liabilities at December 31, 2006 and 2005 are presented below:

	Won (millions)	
	2006	2005
Deferred tax assets:		
Accumulated depreciation in excess of tax limit	₩ —	1,972
Allowance for doubtful accounts in excess of tax limit	59,688	69,293
Bad debts written off	72,461	63,366
Dividend income	2,130	—
Loss on impairment of investments	10,053	10,037
Accrued expenses	38,346	—
Provision for warranties	193,227	199,142
Loss on impairment of property, plant and equipment	6,876	—
Net operating loss carryforward	5,324	—
Carryforwards of unused tax credits	363,415	274,789
Tax reserve applicable to equity	51,800	—
Others	1,687	1,866
Total deferred tax assets	805,007	620,465
Deferred tax liabilities:		
Deferred foreign exchange translation gain, net	₩ 1,434	2,150
Accumulated depreciation	935	—
Accrued income	5,065	4,206
Equity in income of affiliates, net	370,440	212,814
Gain on valuation of derivatives	31	839
Amortization on development costs	557	2,989
Tax reserve applicable to equity	4,581	10,812
Total deferred tax liabilities	383,043	233,810
Net deferred tax asset	₩ 421,964	386,655

(e) Deferred tax assets have been recognized because it is probable that future profit will be available against which the Company can utilize the related benefit.

(f) Deductible temporary differences of which deferred tax assets have not been recognized as of December 31, 2006 amount to ₩594,508 million.

(g) The Company did not recognize a deferred tax liability in the amount of ₩21,952 million and ₩89,527 million arising from the taxable temporary differences associated with equity securities accounted for using the equity method as of December 31, 2006 and 2005, respectively, since it is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The accumulated temporary differences as of December 31, 2006 do not include the temporary differences of ₩261,893 million for the gain on the revaluation of land, which may not be disposed of in the foreseeable future.

(h) The deferred tax assets and liabilities that were directly charged or credited to capital adjustments as of December 31, 2006 are as follows:

	Won (millions)	
	Temporary differences	Deferred tax assets (liabilities)
Unrealized gain on valuation of long-term investment securities	₩ (7,570)	(1,950)
Loss on valuation of investments in affiliates using equity method, net	178,799	49,169
	₩ 171,229	47,219

(i) Under SKAS No. 16, the deferred tax amounts should be presented as a net current asset or liability and a net non-current asset or liability. In addition, the Company is required to disclose aggregate deferred tax assets (liabilities). As of December 31, 2006, details of aggregate deferred tax assets (liabilities) are as follows:

	Won (millions)		
	Temporary differences at December 31, 2006	Deferred tax assets (liabilities)	
		Current	Non-current
Assets:			
Allowance for doubtful accounts	₩ 217,049	49,227	10,461
Bad debts written off	263,495	—	72,461
Dividend income	7,745	—	2,130
Loss on impairment of investments	343,859	—	10,053
Accrued expenses	139,440	—	38,346
Provision for warranties	702,644	75,003	118,224
Loss on impairment of property, plant and equipment	25,003	—	6,876
Carryforwards of unused tax credits	19,312	—	5,324
Net operating loss carryforward	339,404	58,551	304,864
Tax reserve applicable to equity	211,425	—	51,800
Others	6,131	—	1,687
	2,275,507	182,781	622,226
Liabilities:			
Accumulated depreciation	(3,397)	—	(935)
Deferred foreign exchange translation gain, net	(5,216)	—	(1,434)
Accrued income	(18,420)	(5,065)	—
Equity in income of affiliates, net	(1,150,628)	—	(370,440)
Gain on valuation of derivatives	(111)	—	(31)
Amortization on development costs	(2,027)	—	(557)
Tax reserve applicable to equity	(29,245)	—	(4,581)
	(1,209,044)	(5,065)	(377,978)
	₩ 1,066,463	177,716	244,248

(27) Earnings Per Share

Basic earnings per share are calculated by dividing net income by the weighted-average number of shares of common stock outstanding.

	2006	2005
Net income in Won	₩ 39,336,697,185	680,903,937,602
Weighted-average number of common shares outstanding	346,522,839	346,224,844
Earnings per share in Won	₩ 114	1,967

Diluted earnings per share are calculated by dividing diluted net income by the weighted-average number of common and common equivalent shares outstanding.

	2006	2005
Net income in Won	₩ 39,336,697,185	680,903,937,602
Stock option compensation	—	(217,125,529)
	39,336,697,185	680,686,812,073
Weighted-average number of common and common equivalent shares outstanding	346,709,625	346,622,781
Diluted earnings per share in Won	₩ 113	1,964

(28) Dividends

(a) Details of dividends for the years ended December 31, 2006 and 2005 are as follows:

	Won (millions except par value)	
	2006	2005
Dividend amount: Cash dividends	₩ —	86,629
Net income	39,337	680,904
Dividends as a percentage of net income	—%	12.72%
Par value	5,000	5,000
Dividends as a percentage of par value	—%	5%

(b) Dividend yield ratio for the years ended December 31, 2006 and 2005 are as follows:

	Won	
	2006	2005
Dividend per share	₩ —	250
Market price as of year end	13,450	26,000
Dividend yield ratio	—%	0.96%

(29) Stock Options

The Company granted stock options to its executive officers and directors in accordance with the stock option plan approved by the Board of Directors. The details of the stock options granted are as follows:

	1st Grant		2nd Grant	
	Number of shares	Compensation expenses	Number of shares	Compensation expenses
Granted	950,000	₩ 3,735	695,000	₩ 2,974
Cancelled	(31,655)	(125)	(379,903)	(1,614)
Exercised	(902,089)	(3,546)	(105,019)	(461)
Remaining	16,256	₩ 64	210,078	₩ 899
Grant date	March 17, 2000		February 20, 2003	
Exercisable period	2003.3.18 ~ 2008.3.17		2006.2.20 ~ 2011.2.19	
Exercise price	₩ 5,500		₩ 8,200	

If all stock options, which require at least two-year continued services, are exercised, new shares or treasury stock will be issued in accordance with the decision of the Board of Directors. The Company calculates the total compensation expense using the option-pricing model. In the model, the risk-free rate of 10.0 percent and 4.74 percent, the expected exercise period of 5.5 years and the expected variation rate of stock price of 0.8387 and 0.9504 are adopted for the first and second stock options, respectively. Total compensation expenses have been accounted for as a charge to current operations and a credit to capital adjustments over the required period of service from the grant date using the straight-line method.

The compensation expenses of ₩128 million, which were expensed before December 31, 2005, have been reversed due to cancellation of 16,655 shares of the first grant stock option and 14,903 shares of second grant stock option for the year ended December 31, 2006. In addition, among the stock options granted during the current period, 6,667 shares of the first grant option and 105,019 shares of the second grant option were exercised, so that the Company issued the corresponding number of its treasury shares.

(30) Non-cash Investing and Financing Activities

Significant non-cash investing and financing activities for the years ended December 31, 2006 and 2005 are summarized as follows:

	Won (millions)	
	2006	2005
Construction-in-progress transferred to land	₩ 222	1,062
Construction-in-progress transferred to buildings	122,972	101,982
Construction-in-progress transferred to structures	16,688	24,404
Construction-in-progress transferred to machinery	472,450	417,273
Construction-in-progress transferred to dies, molds and tools	91,563	162,893
Construction-in-progress transferred to vehicles	22,884	15,909
Construction-in-progress transferred to other equipment	19,519	20,486

(31) Added Value

The components of manufacturing costs and selling and administrative expenses which are necessary in calculating added value at December 31, 2006 and 2005 are as follows:

	Won (millions)	
	2006	2005
Salaries	₩ 1,797,775	1,705,126
Retirement allowance and severance benefits	357,508	270,082
Other employee benefits	310,575	284,313
Rent	19,905	21,083
Depreciation	460,149	444,255
Taxes and dues	26,097	23,009
	₩ 2,972,009	2,747,868

(32) Employee Welfare and Contributions to Society

For employee welfare, the Company maintains a refectory, an infirmary, athletic facilities, a scholarship fund, workmen's accident compensation insurance, unemployment insurance and medical insurance, etc. The amounts of welfare spending for the years ended December 31, 2006 and 2005 are estimated at ₩310,575 million and ₩284,313 million, respectively.

The Company donated ₩4,524 million and ₩5,858 million to the Korea Archery Association and others for the years ended December 31, 2006 and 2005, respectively.

(33) Geographic Segment Information

The Company conducts business globally and is managed geographically. The following table provides information for each geographical segment for the years ended December 31, 2006 and 2005:

	Won (millions)	
	2006	2005
Domestic sales	₩ 4,867,130	4,471,757
Export sales		
North America	5,144,229	4,297,325
Europe	4,295,839	4,492,756
Asia	745,670	903,593
The Middle East / Africa	928,415	685,125
Middle and south America	594,146	410,236
China	338,905	347,862
Other	525,576	390,702
	₩ 17,439,910	15,999,356

Independent Accountants' Review Report on Internal Accounting Control System

English Translation of a Report Originally Issued in Korean

To the President of Kia Motors Corporation:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Kia Motors Corporation (the "Company") as of December 31, 2006. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2006, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee"

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2006 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2006. We did not review the Company's IACS subsequent to December 31, 2006. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

KPMG Samjung Accounting Corp.

January 31, 2007

:: Notice to Readers

This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2006 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Report on the Operations of Internal Accounting Control System

To the Board of Directors and Audit Committee of Kia Motors Corporation:

I, as the Internal Accounting Control Officer ("IACO") of Kia Motors Corporation (the "Company"), have assessed the status of the design and operations of the Company's Internal Accounting Control System ("IACS") for the year ended December 31, 2006.

The Company's management including IACO is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS Framework for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2006, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

Internal Accounting Control Officer

Kim, Chi Woong

Chief Executive Officer

Cho, Nam Hong

January 26, 2007

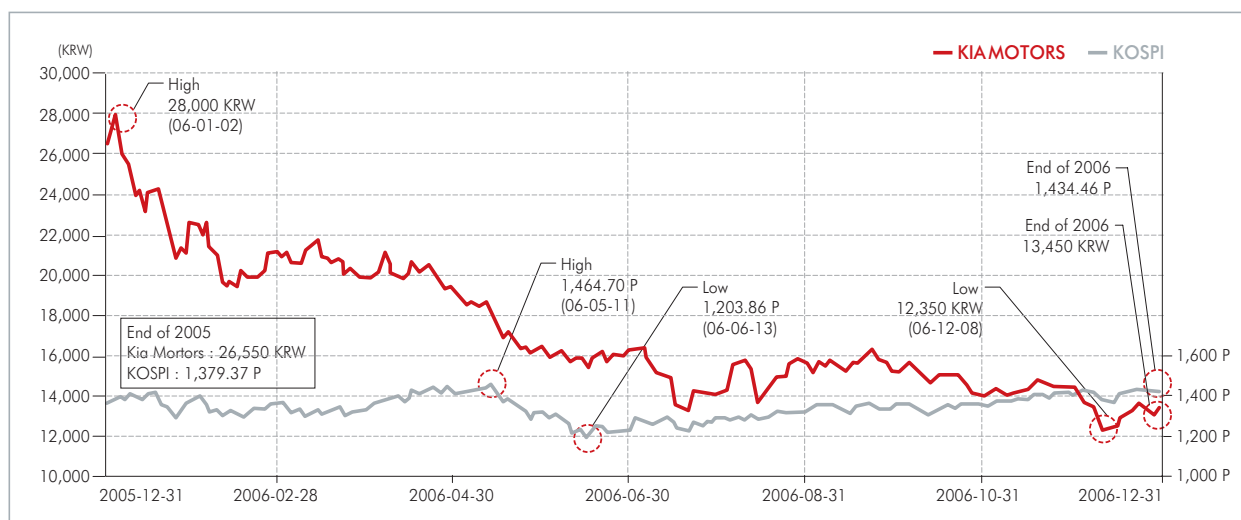
IR Activities in 2006

January	• Conference for 2005 Operating Results and 2006 Business Plan
February	• Non-Deal Road Show in US/Europe/Asia
March	• Annual General Shareholder's Meeting and Annual Report Release (Korean)
April	• Disclosure of 1st Quarter Operating Results • Investors Conference in New York by Morgan Stanley • Annual Report Release (English)
May	• Investors Conference in Seoul by Samsung Securities
June	• Corporate Credit Ratings Annual Review (Moody's) • Investors Conference in Seoul by UBS
July	• New Opirus Test-drive and R&D Presentation to Investors
August	• Disclosure of 1st Half Operating Results
September	• Corporate Credit Ratings Annual Review (Standard & Poor's)
October	• Disclosure of 3rd Quarter Operating Results
November	• Investors Conference in US by Nomura • Investors Conference in Singapore by Morgan Stanley • Investors Conference in Europe by BNP Paribas
December	• Year-end Small Group Meetings with Investors

Shareholder Structure (at December 31, 2006 / 2005, %)

2006	38.67	1.26	1.99	7.25	10.10	22.53	18.20
2005	38.67	3.95	1.99	5.14	13.33	25.18	11.74
	Hyundai Motor Company	Hyundai Capital	ES Chung	ESOP	Domestic Institutional Investors	Foreign Investors	Others

Kia Motors Share Price in 2006



KOSPI was somewhat volatile during 2006, but closed at 1,434.46 points, up 4% from the previous year. Kia Motors stock price was bearish due to our weaker-than-expected operating performance, an investigation into slush funds held by the Hyundai Automotive Group, and labor problems. Our stock price closed at 13,450 Won, down by 49% from the previous year. Foreign ownership of Kia stock fell slightly, from 25.18% (Dec 31, '05) to 22.53% (Dec 31, '06). And Korean institutional investor ownership declined from 13.33% to 10.10%. Otherwise, other ownership (private investors, etc.) rose from 11.74% to 18.20%. Hyundai Capital ownership of Kia stock declined from 3.95% to 1.26% of all outstanding Kia stocks. Kia Motors' payout ratio (including share cancellation of the following year) has been relatively high at 34.8% in 2003, 18.3% in 2004, and 12.7% in 2005. But stockholders did not get a cash dividend in 2006 due to the operating loss. Kia Motors is in the midst of substantial cost reduction, and is ramping up overseas production. We are also developing competitive new models to improve operating performance. When all these efforts are reflected visibly in our performance, and the exchange rate stabilizes, we expect the Kia stock price will recover.

Five Year Summary

(Units, Korean won in millions)

	2006	2005	2004	2003	2002
Sales Volume	1,140,734	1,105,841	1,011,429	858,697	894,268
Domestic	269,575	265,825	250,643	319,795	444,444
Export	871,159	840,016	760,786	538,902	449,824
Revenue	17,439,910	15,999,356	15,257,742	12,839,881	12,158,113
Domestic	4,867,130	4,471,757	4,241,228	5,126,358	6,304,394
Export	12,572,780	11,527,599	11,016,514	7,713,523	5,853,719
Operating Income	-125,291	74,002	513,063	805,537	652,315
Ordinary Income	73,213	689,405	840,078	937,526	851,393
Net Income	39,337	680,904	662,026	752,857	670,820
Total Assets	12,106,605	11,241,785	10,685,879	10,343,490	8,861,604
Current Assets	3,122,252	2,915,901	3,122,169	3,251,294	2,921,333
Non-current Assets	8,984,353	8,325,884	7,563,710	7,092,196	5,940,271
Total Liabilities	6,858,849	5,989,417	5,721,456	5,828,638	4,971,745
Current Liabilities	4,103,104	3,479,435	3,620,385	3,834,658	2,674,711
Non-current Liabilities	2,755,745	2,509,982	2,101,071	1,993,980	2,297,034
Total Shareholders' Equity	5,247,756	5,252,368	4,964,423	4,514,852	3,889,859
Capital Stock	1,848,652	1,848,652	1,848,652	1,848,652	1,848,652
Capital Surplus	1,703,844	1,703,011	1,701,955	1,700,956	1,699,924
Retained Earnings	1,832,861	1,880,153	1,320,423	921,452	349,758
Capital Adjustments	-137,601	-179,448	93,393	43,792	-8,475



1. Mong-Koo Chung

- Graduated from the Department of Industrial Management, Hanyang University
- Received honorary Ph.D. degree in Humane Studies from Central Connecticut State University
- A Professor Emeritus of Business Administration at Qinghua University, China
- Received honorary Ph.D. degree in Business Administration from Mongol National University
- Vice Chairman for FKI (Federation of Korean Industries)
- Received Award for Distinguished Contribution to Automotive Industry from the U.S. Automotive Hall of Fame (2001)
- Currently, Chairman & CEO, Kia Motors Corp.

2. Eui-Sun Chung

- Graduated from Korea University, Department of Business Administration
- Obtained Master's Degree in Business Administration from the University of San Francisco
- Itochu Corporation, New York, USA
- Deputy Head of Hyundai Motor Domestic Sales Division
- Deputy Head of Hyundai Motor/Kia Motors After-Sales Division
- Deputy Head of Hyundai Motor/Kia Motors Planning Division
- Head of Kia Motors Planning Office
- Currently, President & CEO, Kia Motors Corp.

3. Nam-Hong Cho

- Graduated from Inha University, Department of Metallurgical Engineering
- Vice President, Hyundai Dymos Inc.
- Vice President, Kia Motors Corp. Hwaseong Plant Manager
- Currently, President & CEO, Kia Motors Corp.

4. Hee-Bong Ahn

- Graduated from the Economics Department, Kyunghee University
- Head of Audit Team-2, Hyundai Motor Co.
- Head of Domestic Sales Division, Hyundai Hysco
- Currently, Executive Vice President & CFO, Kia Motors Corp. (Since March 16, 2007)

5. Yul Choi

- Graduated from the Graduate School of Mass Communication, Korea University
- Graduated from the Graduate School of Journalism & Mass Communication, Yonsei University
- First Co-Chairman of the Korea Environmental Social Organization Council
- Co-Representative for the Citizen's Coalition for General Election
- An outside director of Samsung SDI Co., Ltd.
- Director General for the Korean Federation for Environmental Movement

- Co-Representative for Solidarity for Citizens and Social Organizations
- Co-Chairman of the Korean Federation for Environmental Movement
- Currently, Executive Director of the Korea Green Foundation

6. Jong-Am Chung

- Graduated from the Department of Business Administration, Yonsei University
- Received MBA degree from Illinois State University
- Received Ph.D. degree in accounting from Yonsei University
- Treasurer for Yonsei University
- Dean of Graduate School of Business Administration, Yonsei University
- President of the Korea Accounting Association
- President of the Korean Academic Society of Business Administration
- Dean of the College of Business & Economics
- Professor of Business Administration at Yonsei University
- Currently, Professor Emeritus of Business Administration at Yonsei University

7. Dong-Sung Cho

- Graduated from the Department of Business Administration, Seoul National University
- Received MBA degree from Bowling Green University
- Received Ph.D. in Business Administration from Harvard University
- Regional Chairperson of the Academy of International Business
- President of the 21st Century Academy
- Chairman of the Strategic Management Society
- Outside Director at Dacom
- Dean of the School of International and Area Studies, Seoul National University
- Dean of the College of Business Administration, Seoul National University
- Currently, Professor of Business Administration at Seoul National University

8. Jong-Chang Kim

- Graduated from the Department of Business Administration, Seoul National University
- President of the Tax Officials Training Center
- Head of the Seoul Regional Tax Office
- Currently, Representative of Kim Jong-chang Tax/Accounting Office

9. Keon-Soo Shin

- Graduated from Seoul National University, Department of Philosophy
- Chief Prosecutor, Criminal Department, Seoul High Prosecutor's Office
- Currently, Attorney at law, Kim, Choi & Lim

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